OFFICE OF THE

Auditor General of British Columbia

2005/2006 Annual Report of the Auditor General of British Columbia

Serving the Legislative Assembly and the People of British Columbia

June 2006

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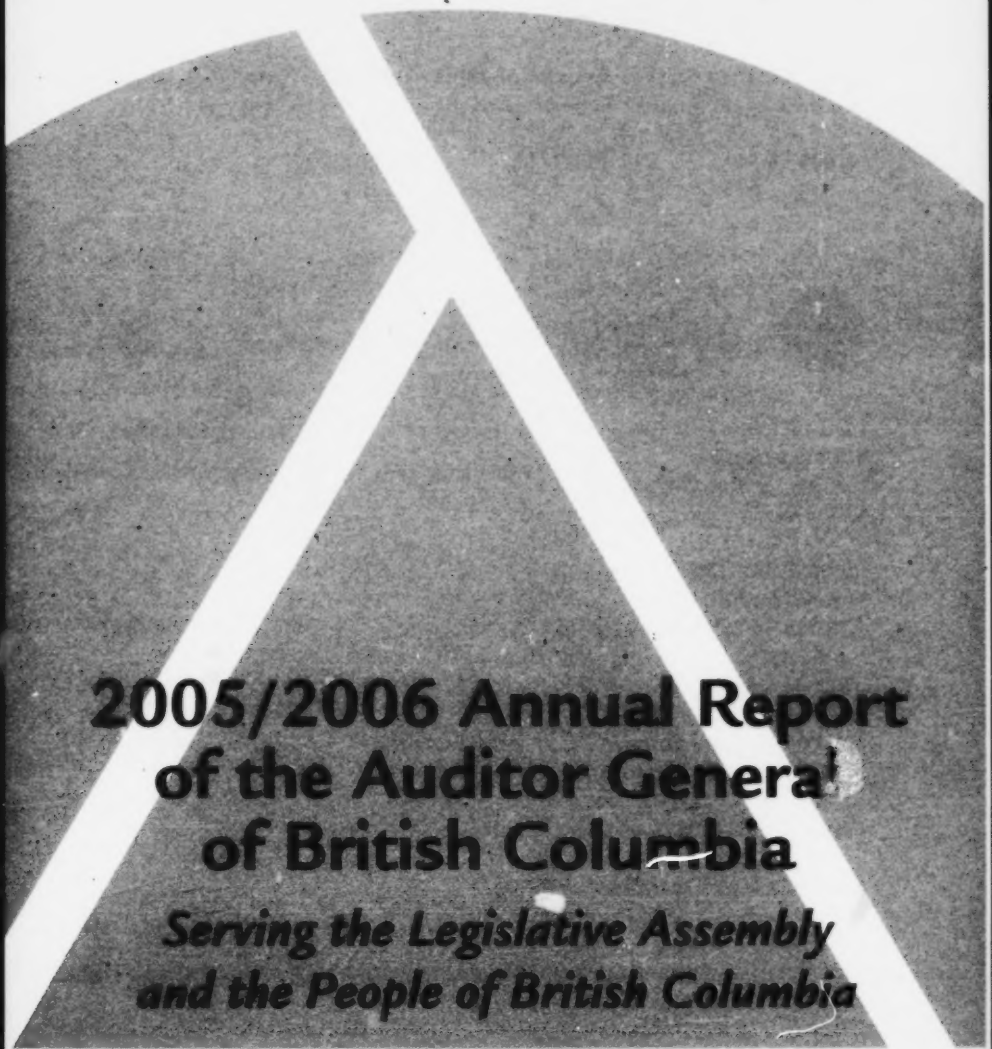

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit the 2005/2006 Annual Report of the Auditor General of British Columbia to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 22 of the Auditor General Act.
This report is also available on our website: www.bcauditor.com.

Arn van Iersel, CGA
Acting Auditor General

Victoria, British Columbia
June 2006

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Message from the AUDITOR GENERAL

I am pleased to present my first report, the Office's 2005/2006 Annual Report, to the Legislative Assembly. It describes what the Office has achieved and compares actual results with what was planned for the fiscal year ended March 31, 2006.

As I was appointed as Acting Auditor General on June 8, 2006, this report was prepared under the direction of the Deputy Auditor General, and reflects the priorities and accomplishments of the former Auditor General.

I would like to take this opportunity to thank Mr. Strelioff for his years of service. I respect his efforts in promoting public sector accountability and his dedication in serving the public interest. I believe he has lived up to the vision for the Office in making a difference for the people of British Columbia by contributing to an accountable and well-performing public sector.

In taking on the position of Acting Auditor General, I expect to fully carry out all the responsibilities of the Auditor Ceneral. In fact, my acceptance of the position was based on that understanding and that my role as legislated under the Auditor General Act would not be limited in scope or authority. I intend on serving the Legislative Assembly and the people of British Columbia to the very best of my abilities which include complete impartiality. In doing so, I will ensure that not only I, but also my Office, abide by the strengthened professional auditing standards that have been introduced across the auditing profession.

While I bring to this Office a keen understanding of its role and the need for independence, credibility and relevance, this report has certainly provided me with a timely and comprehensive overview of what the Office does and why. Its clarity and focus on key results help me to consider how we can shape our future work plans and realize our opportunities for further improving the operation of the Office.

I want to recognize the strong commitment of the staff to the work of the Office. Over the following months, I will be seeking the advice and input of staff, as well as Members of the Legislature, to determine how we can best build on the elements described in this report to serve even better the public and the Legislative Assembly.

Message from the Auditor General

It is my expectation that our Office's performance will continue to be strong and that we will exceed expectations in the coming years. This is a personal commitment and it will be a priority for me to ensure it happens.

Arn van Iersel, CGA
Acting Auditor General

Victoria, British Columbia
June 2006

Accountability for Annual Report

The 2005/2006 Annual Report of the Auditor General of British Columbia was prepared under my direction. I am accountable for how the performance of the Office has been presented, including the selection of performance measures and the approach to reporting on our performance.

The report contains information that reflects the actual performance of the Office of the Auditor General for the 12 months ended March 31, 2006, in relation to our service plan. This report contains estimates and interpretive statements that represent the best judgement of management.

For the first time, this report includes an external audit opinion prepared by Grant Thornton LLP that assesses the report against the British Columbia Performance Reporting Principles. The audit confirms that we have met or exceeded the standard of "fundamentals in place" for seven of the eight principles.

This document is intended for a general audience. Specific users who may require more detailed information should contact the Office.

Errol S. Price, CA, CMC
Deputy Auditor General

Victoria, British Columbia
June 2006

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Speaker
The Legislative Assembly, Province of British Columbia

We have been engaged to report on the Office of the Auditor Gene of British Columbia's (the "Office") stage of development in incorporating the BC Performance Reporting Principles in its Annual Report for the year ended March 31, 2006. The eight BC Performance Reporting Principles outline the characteristics of good performance reporting, and have been endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts for use by public sector organizations in British Columbia.

The conclusion in our report is based on procedures that we determined to be necessary for the collection of sufficient, appropriate evidence in order to obtain a high, though not absolute, level of assurance as to the Office's stage of development in incorporating the BC Performance Reporting Principles. Readers are cautioned that we did not specifically test the accuracy of the data contained in the Office's Annual Report, and consequently we do not offer assurance on the accuracy of the information reported. Our examination was not designed to provide assurance on the appropriateness of the goals, objectives and targets established by the Office. Neither was it designed to provide assurance with respect to representations made by the Office whether the level of performance attained is satisfactory.

We conducted our examination in accordance with Canadian standards for assurance engagements and accordingly included such tests and procedures as we considered necessary in the circumstances.

In our opinion the Office's stage of development in incorporating the BC Performance Reporting Principles for the year ended March 31, 2006, is reflected in this table and the discussion following:

Stage of Development	1. Explain Public purpose Served	2. Link Goals and Results	3. Focus on Few Critical Aspects	4. Relate Results to Risk and Capacity	5. Link Resources, Strategies and Results	6. Provide Comparative Information	7. Present Credible Information Fairly Interpreted	8. Disclose the Basis for Key Reporting Judgments
Fully Incorporated	●		●					
Fundamentals in Place		●		●		●	●	●
In process					●			
Start-up Phase								

The report fundamentally incorporates seven of the eight BC Performance Reporting Principles, including two where a standard of excellence has been achieved. However, based on the one "In process" rating, it does not yet comprehensively depict performance. Fundamentally incorporating the one remaining principle, Principle 5, would allow us to provide a positive conclusion overall on the fair presentation of performance in accordance with the BC Performance Reporting Principles.

Grant Thornton LLP

Victoria, Canada
June 19, 2006

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Chartered Accountants

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Report of Grant Thornton LLP on the 2005/2006 Annual Report of the Office of the Auditor General of British Columbia

Detailed Observations

A description of the eight principles of public performance reporting together with our assessment of the Office's stage of development, in relation to each principle, is set out below:

Principle – Good public performance reporting should:	Assessment
1. Explain the Public Purpose Served Public performance reporting should explain why an organization exists and how it conducts its business, both in terms of its operations and in the fundamental values that guide it. This is important to interpreting the meaning and significance of the performance information being reported.	**Fully Incorporated** The report explains the Office's mission and public purpose, as outlined in enabling legislation. It reports on the organization's three core business areas and the services/products provided. The report describes how these services/products are delivered, including the involvement of private sector auditors. It speaks to the selection considerations of external auditors and the quality assurance measures in place. The report details the Office's clients and stakeholders, including the accountability relationship with the Legislative Assembly. Other factors that are critical to understanding performance are identified, including independence and objectivity.
2. Link Goals and Results Public performance reporting should identify and explain the organization's goals, objectives and strategies and how the results relate to them.	**Fundamentals in Place** The report clearly identifies the organization's mission, mandate, goals, objectives, and successfully explains their interrelationships. Performance measures are clearly reported and reflect the core substance of the objectives. Changes in objectives from the 2005/2006 Service Plan are discussed. The report explains variances from prior years' performance, although it does not consistently outline how the Office develops plans to achieve targeted results.
3. Few, Critical Aspects Public performance reporting should focus on the few, critical aspects of performance.	**Fully Incorporated** The report provides meaningful information to readers of the annual report by focusing on those performance measures that are critical to the understanding of the operational performance of the Office. Key financial information is clearly presented and *understandable*. The report manages its level of detail by referring appropriately to companion documents.
4. Risk and Capacity Good performance reporting should report results in the context of an organization's risks and its capacity to deliver on its programs, products and services.	**Fundamentals in Place** The report examines the key risks to the Office and explains the impact of risk management on results during the year. The report addresses human resource capacity; however other facets of capacity (e.g. funding, technology) are not included in this discussion.

Principle – Good public performance reporting should:	Assessment
5. Link Resources, Strategies and Results Public performance reporting should link financial and performance information to show how resources and strategies influence results. Related to this is how efficiently the organization achieves its results.	**In Process** The report highlights key financial information at an organization-wide level. It provides explanations for variances from prior year and budgeted amounts, however does not make clear how changes in funding might be linked to goals, objectives and actual results. The report reports on efficiency through its discussions and analyses of certain performance measures.
6. Comparative Information Public performance reporting should provide comparative information about past and expected future performance and about the performance of similar organizations when it would significantly enhance a reader's ability to use the information being reported.	**Fundamentals in Place** The report provides comparative data in its analyses of performance measures. The report explains that benchmarks and industry data were sought, but information for direct comparisons was unavailable. Changes in objectives and performance measures from the service plan are disclosed appropriately. In general, performance measures are presented in a manner *consistent* with prior years.
7. Credible Information, Fairly Interpreted Public performance reporting should be credible – that is, based on quantitative and qualitative information that is fairly interpreted and presented, based on the best judgment of those reporting. The information presented should strike a balance among the following attributes: consistency, fairness, relevance, reliable, verifiable, understandable and timely.	**Fundamentals in Place** ***Reliable and verifiable:*** As indicated in our report, we did not specifically test the accuracy of the data, and consequently we do not offer assurance on the accuracy of the information reported. Systems for producing reported data are established and documented, although controls may not be complete. In the report, the Office has expressed its own assessment of the reliability of the information in their discussion of data sources and limitations. ***Timely:*** The report is issued according to the statutory reporting and tabling deadlines. ***Understandable:*** The report uses flow-charts, tables and graphs effectively. Specialized terminology has been kept to a minimum. ***Consistency, Fairness and Relevance:*** These attributes are assessed in relation to other reporting principles, as *highlighted*.
8. Disclose Key Reporting Judgments Public performance reporting should disclose the basis on which information has been prepared and the limitations that should apply to its use.	**Fundamentals in Place** The report identifies the sources of information for performance measure data. Limitations to data sources, where present, are disclosed. Reasons for changes to objectives and performance measures are sufficiently explained. The report discusses the Office's confidence in the reliability of the data, and reports successes and shortcomings in a *fair* and balanced manner. As indicated in our report, we were not engaged to verify the accuracy of the internally generated performance information. It appears the information is capable of being verified by audit, however, so a standard of excellence should be achievable under Principle 8 if independent verification is performed in future years.

Vision

Making a difference for the people of British Columbia by contributing to an accountable and well-performing provincial public sector.

Mission

To serve the people of British Columbia and their elected representatives by providing independent assessments and advice that enhance accountability and performance across the provincial public sector.

Goals

1. The people of British Columbia and their elected representatives receive the best information possible for assessing the performance of the provincial public sector.
2. Our work meets the highest standards and is carried out in an exemplary manner.

Values

As we pursue our goals, we are committed to:

Excellence

We strive to meet the highest standards of service, professionalism, integrity and independence.

We are committed to being efficient and effective in our operations, and to promoting creativity, innovation and responsible risk-taking in our work.

We seek to maintain a relationship of mutual respect and trust with those we serve, and willingly share our experience and expertise.

Our People

We value the unique contribution and talents each individual adds to our Office and community.

We strive to manage on the basis of fairness, equity, honesty, mutual respect, trust and personal dignity. As our success is dependent on our working together, we promote a spirit of cooperation and teamwork throughout our organization.

We are committed to the concept of personal and professional development and support quality-of-life endeavours.

About the Office of the Auditor General

Our mandate and role

The Office of the Auditor General has a unique role in British Columbia. By being independent of the government and reporting directly to the Legislative Assembly, we provide a measure of assurance about government's operations that no one else does.

The Office provides the public and the Legislative Assembly with a strong means for holding government to account for how it delivers almost $41 billion in programs and services to the people of British Columbia. The Office's mandate is broad and covers audits not only of the financial statements of the province, but also of government's wider performance reports and delivery of specific programs and services.

The Auditor General is one of eight statutory Officers of the Legislature. Each Officer has a distinct set of responsibilities. The Auditor General reports impartial assessments of public sector accountability and performance to the Assembly. By doing so, the Auditor General contributes to improved accountability and performance in the British Columbia public sector.

Under the authority of the Auditor General Act, the Auditor General has a mandate to audit all parts of the provincial public sector, including its ministries, Crown agencies and other organizations (such as school districts, colleges and institutes, universities, and health authorities).

The Act requires the Auditor General to audit the government's annual summary financial statements and allows the Auditor General to be appointed as the financial statement auditor of any organization that is included in the government reporting entity (i.e., any organization for which financial results are consolidated into the summary financial statements), subject to the approval of a committee of the Legislative Assembly.

The Act also allows the Auditor General to carry out examinations focusing on, among other things, whether government ministries or government organizations are operating economically, efficiently and effectively; and whether the performance information provided to the Legislative Assembly by the government or a government organization concerning program results is adequate.

Our Office is one of the few independent sources of credible, high quality assurance work relevant to British Columbians. We carry out a role that is key to good public accountability and vital to the democratic process of responsible government.

Our clients and key stakeholders

Our clients are the people of British Columbia and, as representatives of the public, Members of the Legislative Assembly (MLAs). In serving the public, we ensure all of our reports are accessible, electronically through our website and in print form as requested. Our audit reports are tabled in the Legislative Assembly and then referred to the Select Standing Committee on Public Accounts (PAC), an all-party committee of the Assembly. The PAC meets in a public forum to review our reports and makes recommendations to the Legislative Assembly about our reports, including acceptance or rejection of our recommendations. Our primary corporate accountability and performance documents (Strategic Direction and Funding Proposal, Service Plan and Annual Report) are also tabled in the Assembly, but are referred to a different committee, the Select Standing Committee on Finance and Government Services (FGS).

To ensure we are meeting the needs of our clients – MLAs and, through them, the general public – we interviewed Members of both select standing committees in 2005/06. This approach provided us with the opportunity to obtain the views of 23 of the 79 Members currently serving in the Legislative Assembly. In prior years, we focused only on Members of the PAC. However, given the FGS committee's responsibility to oversee our overall accountability and performance, it was important to include this committee in our annual set of interviews. It has been an extremely valuable undertaking. The Members' views not only provide direct input into 6 of our 18 key performance measures, but also inform our work generally. We build this information into development of our future work plan. Because these are the MLAs most involved in our audit work, we believe they can provide us with feedback that relates to the full Legislative Assembly. Further details about our MLA interviews are discussed below in "How We Measure Our Performance" (see the section "Data Sources and Limitations") and in performance measures 2, 3, 7, 8, 14 and 15.

We also believe it is important to gain insight into the public's views on our work. In May 2006, for the first time, Ipsos-Reid surveyed the public on our behalf. The results of this 800-person survey indicated that 42% of the public was very or somewhat aware of our Office. This result is actually quite favourable given the relatively low profile

Source: Office of the Auditor General of British Columbia

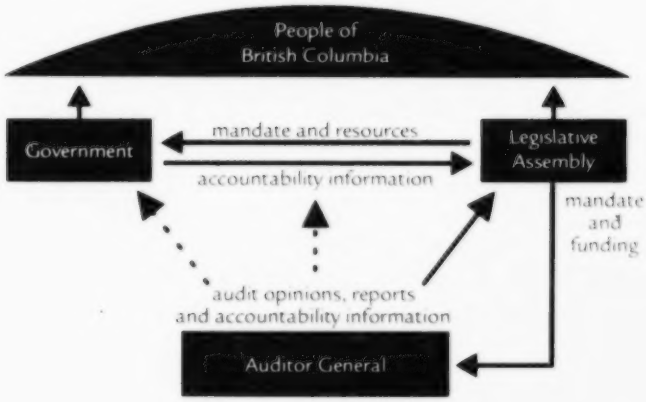
British Columbia's Parliament Buildings

"Our mission is to serve the people of British Columbia and their elected representatives by providing independent assessments and advice that enhance accountability and performance across the provincial public sector."

nature of our Office. In addition, the survey results indicated that 82% of the public believes that we provide a valuable service to the province. These results are very encouraging for us. We are currently considering how to incorporate this survey and other approaches to obtaining the public's views into our future operational plans.

Our main auditees are the public sector organizations within the government reporting entity (included in "Government" in Exhibit 1). This includes all 19 ministries and about 150 other government organizations/trust funds. We also value their direct feedback and send an "auditee satisfaction survey" to those organizations that we audit directly. The results of this survey are reported in our performance measure 13.

Exhibit 1 **The Office of the Auditor General plays a key role in strengthening provincial public sector accountability**



We have many other significant stakeholders, including the Canadian Institute of Chartered Accountants (which sets the auditing standards we follow), different professional accounting bodies, sector-specific organizations, and other legislative audit offices across the country.

We also work closely with private sector auditing firms. While we directly audit the 19 ministries of government, private sector auditing firms conduct the majority of the audits of the approximately 150 government organizations included in the government reporting entity. Additional information on these arrangements is provided under Objective 1.1, where we discuss our financial statement audit work in more detail.

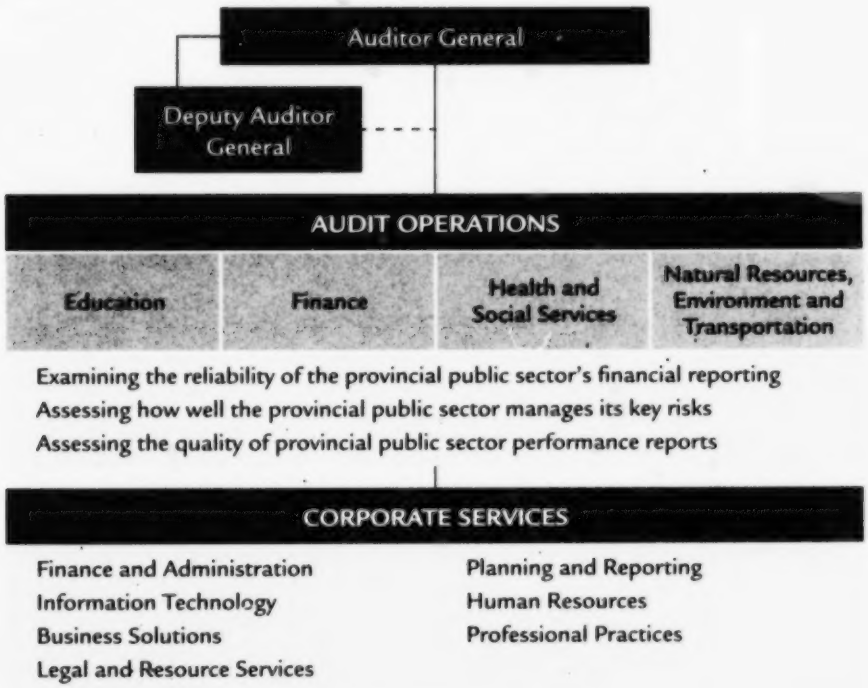
By understanding the needs of our clients and working with our stakeholders, we are better able to ensure our work is credible, relevant and up to date.

Our structure

The Auditor General is typically supported by 80-90 permanent staff. The majority of our staff members have accounting designations, and many of those individuals also have additional credentials and a broad experience base. As well, we have subject-matter experts in areas such as business and public administration, law, social and environmental sciences and health care.

Our audit operations staff is organized into four sectors, reflecting the main activities of the public sector: Education; Finance; Health and Social Services; and Natural Resources, Environment and Transportation (see Exhibit 2). Some of these audit sectors take on additional cross-government audits. For instance, the Finance sector has responsibility for information technology audits and the Education sector leads the assessments of government's performance reports. Corporate Services staff members provide Office-wide planning and reporting, professional practices, legal services, human resource management and business functions such as financial services, information technology and general administration.

Exhibit 2 **Operations structure in the Office of the Auditor General**



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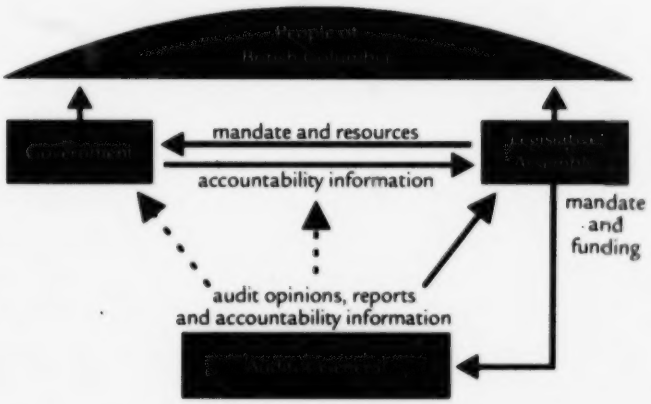

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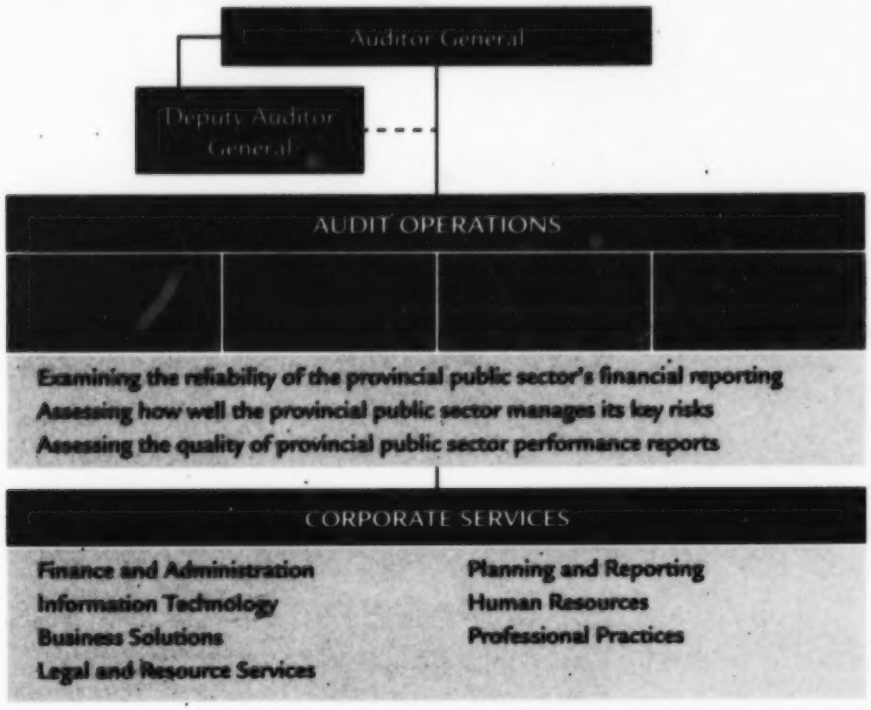

Auditor General
Deputy Auditor General
AUDIT OPERATIONS
Examining the reliability of the provincial public sector's financial reporting
Assessing how well the provincial public sector manages its key risks
Assessing the quality of provincial public sector performance reports
CORPORATE SERVICES
Finance and Administration
Information Technology
Business Solutions
Legal and Resource Services
Planning and Reporting
Human Resources
Professional Practices

Exhibit 3 shows the relative allocation of audit resources among our audit sectors. The base allocation to each of the four operational sectors was approximately equal. As in previous years, adjustments were made to add funding for cross-government audit work to specific sectors. Significant reallocations also occurred to address priorities that arose during the year. For example, our work related to public-private partnerships was led by the Natural Resources, Environment and Transportation sector. Meanwhile, we had recruitment lags and staff reassignments that affected our Health and Social Services sector.

Combined, these reallocations resulted in a heavier emphasis on our work related to natural resources and transportation than was originally planned. However, this does not signal a long-term direction for the Office.

Exhibit 3 **Distribution of audit dollars among our operating groups**

	Planned	Actual
Education	25%	23%
Finance	26%	26%
Health and Social Services	22%	14%
Natural Resources, Environment and Transportation	27%	37%

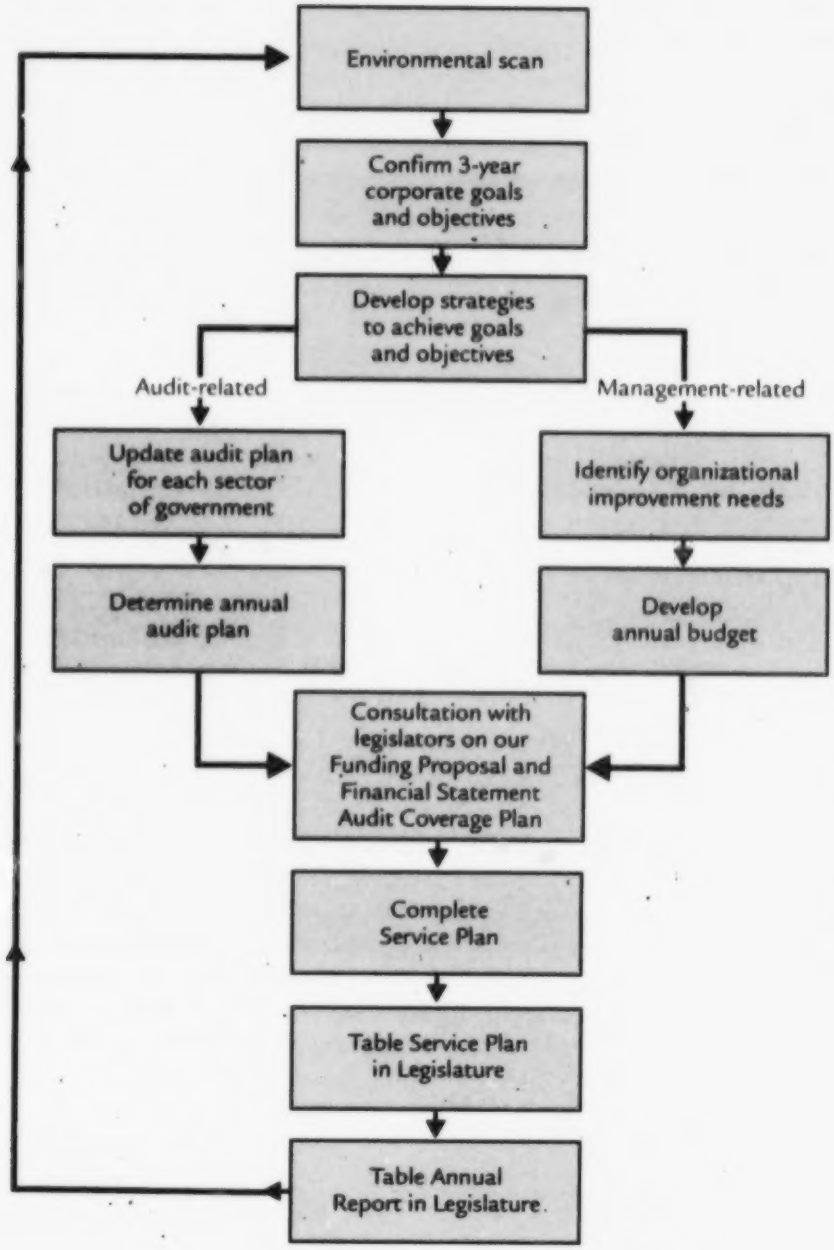
Our planning, funding and reporting cycle

Our planning, funding and reporting cycle, depicted in Exhibit 4, sets out how our corporate goals and objectives guide our internal planning activities and result in:

1. an updated audit plan for each sector; and
2. management activities that improve our organizational performance.

This information in turn leads to a work program, as presented to the Legislative Assembly within our Strategic Direction and Funding Proposal, Financial Statement Audit Coverage Plan and Service Plan.

Exhibit 4 **Planning, funding and reporting cycle in the Office of the Auditor General**


Environmental scan
Confirm 3-year corporate goals and objectives
Develop strategies to achieve goals and objectives
Audit-related
Management-related
Update audit plan for each sector of government
Identify organizational improvement needs
Determine annual audit plan
Develop annual budget
Consultation with legislators on our Funding Proposal and Financial Statement Audit Coverage Plan
Complete Service Plan
Table Service Plan in Legislature
Table Annual Report in Legislature

About the Office of the Auditor General

The Auditor General Act requires strong involvement by committees of the Legislative Assembly in reviewing the Auditor General's work. Accordingly, in November of each year, we submit our Financial Statement Audit Coverage Plan and our Strategic Direction and Funding Proposal to the Legislative Assembly. The Assembly refers these documents to, respectively, the Select Standing Committee on Public Accounts and the Select Standing Committee on Finance and Government Services. The audit coverage plan outlines a three-year plan for the appointment of either the Auditor General or a private sector firm as the auditor of the different government organizations and trust funds. The funding proposal contains our overall proposed work program and related costs.

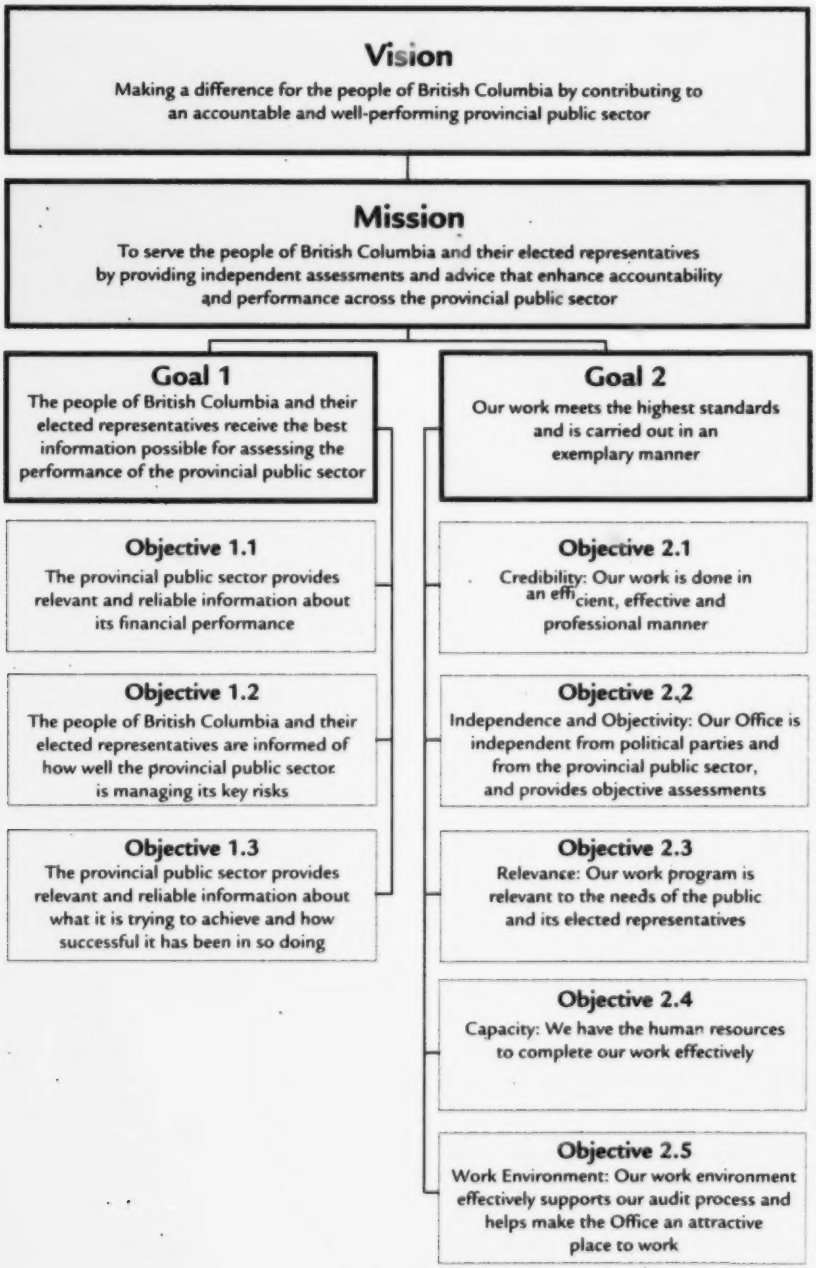
Our annual Service Plan, tabled in the Legislative Assembly in February of each year, confirms our strategic direction and outlines our work program for the next three years across all our lines of business. It reflects the recommendations made by the two select standing committees as outlined above. Our annual report, tabled at the end of June each year, completes this cycle by providing information about the Office's performance for the year ended March 31, assessed against the previously published service plan.

Setting our strategic direction

Exhibit 5 outlines the linkages between our current vision, mission, goals and objectives. There is a logical flow that begins with our overall organizational vision and mission. Our two goals follow separately, but in fact they are highly integrated.

Goal 1 is focused on the three types of audit work we do: financial statement audits, risk audits and performance report examinations. These are our three lines of business. Goal 2 is focused on how we carry out our audit work and the underlying objectives focus on our five key risks: credibility, independence and objectivity, relevance, capacity and work environment. As explained in our 2006/07–2008/09 Service Plan, we rephrased three of our objectives to improve their clarity. Our independence objective was expanded to explicitly include objectivity as a distinct element. As well, our capacity objective now focuses solely on human resources issues, and our work environment objective focuses on the supports our employees need to carry out their work and on the quality of our workplace.

Exhibit 5 Performance reporting framework of our Office


Vision
Making a difference for the people of British Columbia by contributing to an accountable and well-performing provincial public sector
Mission
To serve the people of British Columbia and their elected representatives by providing independent assessments and advice that enhance accountability and performance across the provincial public sector
Goal 1
The people of British Columbia and their elected representatives receive the best information possible for assessing the performance of the provincial public sector
Goal 2
Our work meets the highest standards and is carried out in an exemplary manner
Objective 1.1
The provincial public sector provides relevant and reliable information about its financial performance
Objective 1.2
The people of British Columbia and their elected representatives are informed of how well the provincial public sector is managing its key risks
Objective 1.3
The provincial public sector provides relevant and reliable information about what it is trying to achieve and how successful it has been in so doing
Objective 2.1
Credibility: Our work is done in an efficient, effective and professional manner
Objective 2.2
Independence and Objectivity: Our Office is independent from political parties and from the provincial public sector, and provides objective assessments
Objective 2.3
Relevance: Our work program is relevant to the needs of the public and its elected representatives
Objective 2.4
Capacity: We have the human resources to complete our work effectively
Objective 2.5
Work Environment: Our work environment effectively supports our audit process and helps make the Office an attractive place to work

About the Office of the Auditor General

In following our strategic direction, we are guided by our organizational values — a commitment to excellence in our work and to valuing the people we work with. A more detailed discussion of our organizational values is contained in our standards of service, published in our Service Plan each year. These standards of service are grouped into three major components:

- ***Approaching our Work in a Fair and Constructive Way*** addresses a number of issues that help ensure our work is fair (e.g., government's performance is assessed against reasonable standards) and constructive (e.g., we provide sound, practical recommendations).
- ***Providing Accurate, Reliable Assessments and Sound Advice*** addresses many issues that help ensure our advice is accurate, reliable and sound (e.g., we provide evidence-based assessments).
- ***Building Strong Relationships*** addresses many issues that help ensure we have strong relationships in place (e.g., we communicate openly with management throughout an audit).

Our values (in keeping with these standards of service) are evident within our objectives, most notably credibility, independence and objectivity, relevance, capacity and a positive work environment. Consequently, in meeting our objectives, we know whether we have met our organizational values.

We manage our overall performance related to our objectives and specific performance measures by reviewing "how well we are doing" periodically throughout the year. For example, we monitor whether our projects will be on time (performance measure 10) and the implementation of our new quality control processes (performance measure 9). We then adjust course if necessary to try to improve our performance results. We recently established a more formal reporting mechanism that assesses our progress on some of our performance measures quarterly. However, there are a number of measures that cannot be monitored quarterly e.g., measures related to our annual MLA survey. For these measures, we will need to ensure we actively monitor the strategies we have in place to make progress on these measures instead.

Since there is a direct relationship between our performance measures and the major risks facing the Office, our new quarterly monitoring process will also assist us in better managing our risks. On an operational basis, we accept a higher degree of risk in what we audit, but are more risk averse in how we carry this work out. For instance, when we conduct a high-risk audit e.g., one that is controversial and complex, we put in place an executive-level quality control mechanism to mitigate the risk of our credibility being challenged. Specific risks are currently addressed as they arise and more holistically during development of our three key accountability

documents – Strategic Direction and Funding Proposal, Service Plan and Annual Report – three times a year. A quarterly review process will complement these risk management activities.

How we measure our performance

Our performance measures

Our current measures were set in 2003/04. At that time, we engaged staff in extensive discussions to help identify what was important to measure and to enhance Office-wide understanding about our performance.

The first group of performance measures relates to the objectives for our three lines of business. The second group of measures relates to the objectives for our five key risk areas. The results of individual measures indicate how well we are doing in meeting one or more aspects of these objectives. Overall, the suite of measures we report on provides a well-rounded overview of our general performance.

Developing meaningful performance measures has been a challenge for us, as it has been for other organizations. In particular, much of what we believe is important to measure is not completely within our control, such as the extent to which organizations are complying with generally accepted accounting principles in their financial reporting, incorporating the BC Performance Reporting Principles into their performance reports, and implementing our recommendations. In none of these cases do we actually control the result. Nevertheless, we believe we do influence the results through our work and thus have an indirect impact. We will be monitoring these measures carefully over the coming years to better discern our degree of influence.

Results reported for other measures are more directly attributable to our performance. Examples include our own compliance with professional auditing standards, and whether our projects have come in on budget and on time.

One change we made to our performance measures in 2005/06 (and included in our 2006/07–2008/09 Service Plan) was to aggregate our on-time and on-budget measures to reflect an Office-wide approach rather than individual lines of business.

About the Office of the Auditor General

Our targets

Our planned performance for 2005/06 was outlined in last year's Service Plan. The targets identified were based on our view of what constituted good performance in light of our external environment. Our external environment discussed in last year's service plan identified the following key issues:

- government continues to change;
- government financial statement reporting has improved;
- professional standards are becoming more demanding;
- providing assurance on government performance reports requires building capacity; and
- responding to committee requests may affect other work planned.

While we did not change 2005/06 targets, some of our future year targets have either been held steady or changed to reflect the emerging trends we see related to the data underlying the measures. These changes are explained as each target is discussed in this report.

We have looked for comparable target benchmarks, but have found little publicly available information for direct comparisons. We will be assessing our targets over the coming months and will continue to search for comparable benchmarks and better management processes we can adopt to improve the targets we set and, consequently, our related performance. We think it is important to set "stretch targets" aimed at continuous improvement, and we want our targets to be grounded in past performance and informed by benchmark comparisons where possible.

Data sources and limitations

We use three main data collection methods: the Office's internal management information system, our audits and survey data. Each of these approaches provides us with reliable data to support our key performance measures. There are, however, some specific issues related to the data that are important to identify at the outset.

The Office information system provides us with reports on our operations, finances and staff. This means that all of our direct performance measures and operational data are well supported by information available internally. We are making improvements to ensure consistency and accuracy in the information going into the system (e.g., improving definitions for recording employee hours), but overall we are confident that the system is providing the information we need to report on our performance in this area.

Our audit staff provides reliable information about GAAP compliance and about the quality of public sector reporting. This information is well supported by our

audit work on the government's summary financial statements and our assessments of government's performance reports. Given our rigorous quality control processes, the data gathered under this method are sound.

We also undertake three types of surveys. The first is of organizations we audit. For our 2005/06 performance results, we surveyed up to 95 people and received a response rate of 60%. This approach uses a consistent set of questions through a standardized electronic survey. However, the survey is not done anonymously and so responses may be tempered by that fact. As well, while we attempt to have respondents focus their views on *how* we conducted our audits, and not on whether they agree or disagree with our audit findings, we realize that it may be difficult to keep the two aspects apart.

Despite these issues, we believe the underlying data we obtain from this survey is still robust enough to support the performance measure we are reporting on.

Our second survey gathers data from one of our key client groups, MLAs. Each year, the Office conducts uniformly structured discussions with individual MLAs who were members of the Public Accounts Committee. In 2005/06, we expanded our survey to include MLAs who served on the Select Standing Committee on Finance and Government Services. In total, we met with 19 of the 23 MLAs who served on either committee (an 83% response rate). Many MLAs were new to these committees, given the recent provincial election in May 2005. These new members brought a different set of experiences with them and there was significant representation by both governing and opposition parties. Combined, these factors likely influenced our performance results. For example, a number of the members chose to reserve their opinion on some survey questions until they gained greater knowledge of our work. We recognize that interviewing individuals in person may influence their responses to our survey. To mitigate that potential influence, we asked the same questions at each interview and used the same rating scale to record responses in a consistent manner. Again, we believe the data are robust enough to support the performance measures we are reporting on.

Our third survey obtains staff feedback on our work environment. As Goal 2 indicates, we strive to be an exemplary workplace and we want to know what staff members think of the Office. For that reason, we ask our staff annually about how well the Office functions and carries out its work. The 2005/06 survey was sent to all staff (more than 80) and we received an 88% response rate. Confidentiality was a critical component of the electronic survey and the information was collated and analyzed by an external consultant.

In the description of our performance that follows, we set out the data sources as described above for each measure and provide comparable data from previous years where possible.

Our performance at a glance

The following summary table contains our performance measures and data for 2005/06. Full descriptions and detailed information follow in the next section of the report.

Objective	Performance Measure	Target	Result
1.1	1. Percentage of government entities fully following generally accepted accounting principles	100%	99%
	2. Legislators believe in the value of the Auditor General's regular examination of government's financial statements	100%	100%
1.2	3. Legislators believe in the value of our examinations of how risks are being managed	95%	100%
	4. Percentage of our recommendations endorsed by the Select Standing Committee on Public Accounts (PAC)	100%	100%
	5. Percentage of recommendations implemented within two years * Available data covers a 14- to 18-month period.	80%	48%*
1.3	6. Percentage of government's annual reports that have reached "Fundamentals in Place" for:		
	1 performance reporting principle	80%	48%
	2–4 performance reporting principles	40%	35%
	5–8 performance reporting principles	15%	13%
	7. Legislators believe in the value of the Auditor General's efforts in the area of performance management and reporting	93%	64%
	8. Legislators make use of government's performance reports in their deliberations or decision-making	92%	50%
2.1	9. Level of compliance with Canadian Institute of Chartered Accountants quality control standards	Fully Compliant	Substantially Compliant
	10. Percentage of audit hours of operational staff charged against annual available hours	80%	77%
	11. Percentage of projects completed on time	85%	82%
	12. Percentage of projects completed on budget	85%	46%
	13. Audited organizations are satisfied with the way we conduct our work	75%	76%
2.2	14. Legislators believe information in the Office's audit reports is presented in an objective and unbiased manner	100%	96%
2.3	15. Legislators believe topics chosen by the Auditor General are relevant	100%	100%
2.5	16. Percentage of our resources (measured in dollars) devoted to audit support	24%	27%
	17. Percentage of actual expenditures invested in learning and professional development	5.7%	6.7%
	18. Work environment engagement score	72%	74%

We met or exceeded our targets for seven measures and came very close to meeting our targets for another five measures. For the remaining six measures, we will need to take specific actions if we are to make any significant progress on them next year.

As discussed earlier, now that we have a few years of data to consider, we will be reviewing not only our performance trends, but also how achievable our targets are over the longer term. The next section of our report discusses each of these performance measures and our results in greater detail.

Performance reporting by goal

Goal 1

The people of British Columbia and their elected representatives receive the best information possible for assessing the performance of the provincial public sector

Resources dedicated to achieving Goal 1

In 2005/06, we spent $4.69 million on activities specifically related to Goal 1. We had estimated that the distribution of our direct audit resources for this goal would be:

- 47% to attesting to the reliability of the provincial public sector's financial information;
- 42% to assessing how well the provincial public sector manages its key risks; and
- 11% to assessing the quality of provincial public sector performance reports.

The Office was not able to meet these audit resource allocation expectations in 2005/06.

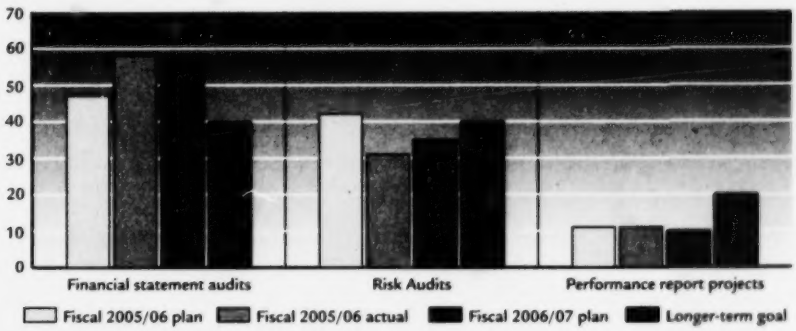
The actual distribution of resources in 2005/06 indicates that 58% of our audit resources were applied to our financial statement audits and related work – approximately the same as what we spent the year before (see Exhibit 6). This work continues to require a significant portion of our resources due in part to the broadened government reporting entity and enhanced audit quality control processes being implemented. We must continue to devote the resources necessary in order to meet our legislated responsibilities in this area. Consequently, we have revised our planned resource allocation for 2006/07 to 55% – more in keeping with our historical spending pattern.

Similarly, for our risk audits, we spent 31% of our resources in this area in 2005/06. This is also comparable to what we spent the previous year. In order to meet the resource needs for our financial statement audits, the risk audit line of business had less funding than planned. We do not anticipate a major shift in this allocation for 2006/07 and so have revised our 2006/07 planned resource allocation to 35%.

Providing assessments of annual reports continues to be a relatively small component of our total audit work. With 11% of our resources being spent in this area, we are in accordance with our planned 2005/06 resource allocation for this line of business.

Our plan to reach to a 40%, 40% and 20% allocation, respectively, across our three lines of business continues to be a long-term goal that we will work towards as funding increases.

Exhibit 6 **Planned and actual distribution of audit resources ($) by line of business and fiscal year**



Objective 1.1 — The provincial public sector provides relevant and reliable information about its financial performance

Line of Business — Attesting to the reliability of the provincial public sector's financial information

As the legislated auditor for all of government, the Auditor General has the responsibility to provide an opinion as to whether the summary financial statements are presented fairly and in accordance with Canadian generally accepted accounting principles (GAAP). The statements report the Province's financial results against its financial plan. Therefore, they must be comprehensive, accurate and timely. Independently verifying these statements contributes to maintaining the trust and confidence of all readers, including the general public, MLAs and external organizations such as credit rating agencies and other governments.

As well, with full implementation of GAAP in 2004/05, we need to ensure we have sufficient knowledge of the operations of approximately 150 organizations (including schools, universities, colleges and health authorities) that are now part of the government reporting entity. Our annual Financial Statement Audit Coverage Plan recommends the level of involvement our Office should have on the audits of each organization:

- *direct audit* where the Auditor General expresses his/her opinion on the financial statements based on audit work carried out by the Office (sometimes using the resources of private sector auditing firms)
- *significant involvement* where we actively engage in understanding the operations of the organization, the audit process and key audit issues but a private sector firm conducts the audit and expresses its opinion on the financial statements
- *limited involvement* where we gain a basic understanding of the organization and its key audit issues through the audit work of a private sector firm which expresses its audit opinion on the financial statements

Our involvement depends on a number of factors including the size, scope and significance of the organization being audited. In general, we require sufficient involvement across all government organizations to enable us to provide our audit opinion on the provincial summary financial statements.

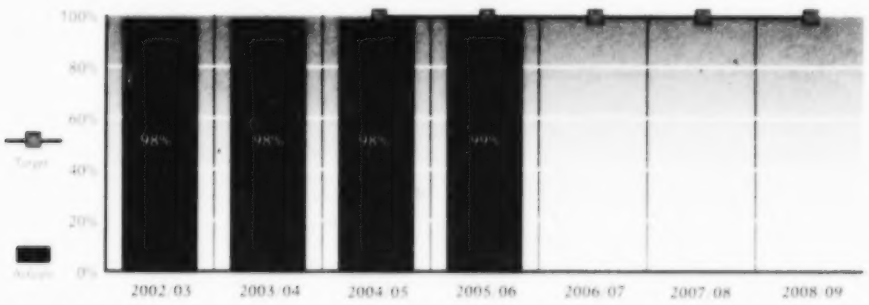
Under our plan, private sector auditing firms actually conduct most of the school, university, college and hospital sector audits. This plan relies on the private sector's ongoing capacity, expertise and adherence to professional standards to carry out the audits and ensure the audits are conducted in accordance with generally accepted auditing standards. The process for the selection and appointment of a private sector auditing firm is the responsibility of the governing boards of government organizations, as outlined in A Guide to the Appointment of Auditors for Government Organizations – a document we produced to assist with this selection process. A Request for Proposals for Audit Services (see suggested template which relates to the Guidelines) is often issued to select a firm that is best qualified to conduct the audit.

When we have significant involvement in an audit, we will review the work of the private sector firm, as appropriate, which provides us with the direct knowledge to be able to rely on their work. In addition, any public sector organization being audited can ask our Office to become more involved in an audit if there are outstanding issues to resolve.

What we achieved in 2005/06

1. Percentage of government entities fully following generally accepted accounting principles (GAAP)

The first of our two key performance measures in this area reports on the extent to which government is meeting GAAP. The actual result for 2005/06 is 99%, so the target of 100% was not quite met. However, this result is based on the first year government fully implemented GAAP which meant including about 150 organizations in government's reporting entity. This has made British Columbia a leader in financial reporting across the country. In that light, 99% is a very high achievement. We are especially pleased to report that we provided an unqualified audit opinion on the government's overall summary financial statements.



Data source: auditors' opinions on the annual financial statements of government and organizations included in the consolidated government reporting entity. The opinions indicate whether the financial statements have been prepared in accordance with GAAP. Of the 149 entities included, only 2 did not fully meet GAAP and the audit opinion qualifications on those 2 entities were not material enough to warrant qualifying our overall opinion on the summary financial statements.

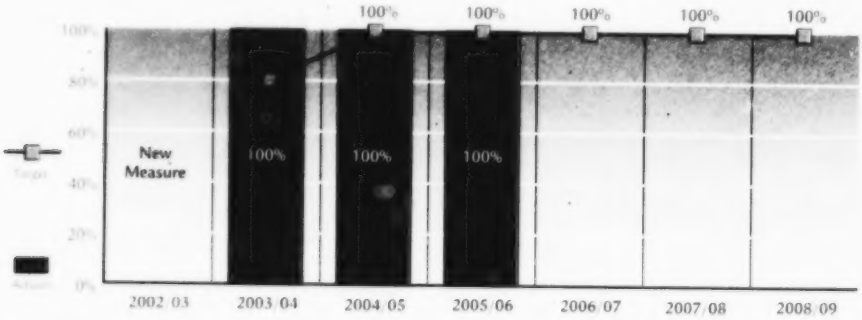
Description

Following GAAP ensures financial information is fairly presented. Although it is government's responsibility to ensure this happens so that the public and its elected representatives can rely on the information as it is reported, we play a role in advising government on its reporting decisions. The fact that financial statement audits focus on compliance with GAAP is also an important incentive for organizations to ensure their financial reporting is complete in all respects.

The target and result for each year are based on audits completed in the fiscal year, relating to the year ended March 31. The actual percentage for 2005/06 is therefore based on the audits of financial statements for the year ended March 31, 2005.

2. Legislators believe in the value of the Auditor General's regular examination of government's financial statements

Our second performance measure under this objective reports on the value MLAs who were surveyed place on our financial statement audit work. For the third year in a row, we reached 100%. These legislators have agreed unanimously that our work in this area is of high importance to them and the people of the province.



Data source: Annual survey of legislators serving on the Legislative Assembly's Select Standing Committee on Public Accounts and, for 2005/06, of legislators serving on the Select Standing Committee on Finance and Government Services.

Description

We believe that our examination of government's financial statements gives the public and its elected representatives confidence in government's financial reporting. This measure indicates the extent to which legislators agree that this is the case. The results indicate the percentage of legislators who strongly or somewhat agreed with the statement made within the measure. Important to note: legislators who "neither agree nor disagree" with the statement are grouped in with the remainder of the responses.

Other significant achievements in 2005/06 related to this objective include:

- completing the summary financial statement audit in less than three months after fiscal year-end – a major accomplishment given that these are one of the most complex sets of government financial statements in Canada;
- auditing directly each of the 19 government ministries and 29 government organizations;
- being significantly involved in the audits of 22 government organizations;
- obtaining approval of the Public Accounts Committee for our 2006/07 Through 2008/09 Financial Statement Audit Coverage Plan (the plan sets out the 24 government organizations we will audit directly and the remaining 128 government organizations that will be audited by private sector audit firms);
- publishing the annual Monitoring the Government's Finances report;

When we have significant involvement in an audit, we will review the work of the private sector firm, as appropriate, which provides us with the direct knowledge to be able to rely on their work. In addition, any public sector organization being audited can ask our Office to become more involved in an audit if there are outstanding issues to resolve.

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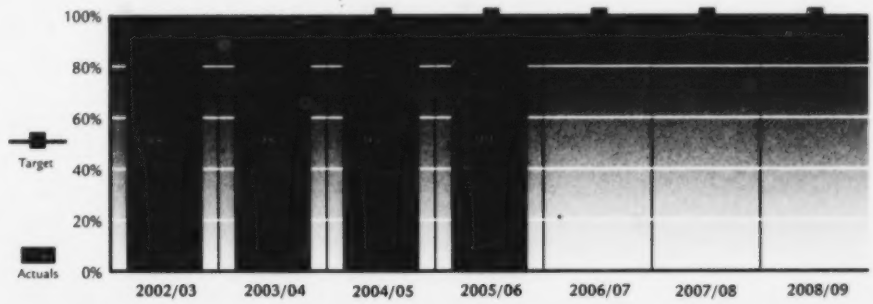

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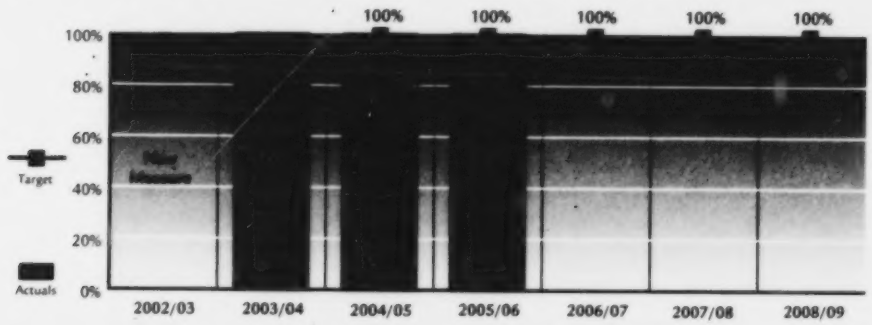

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- publishing the annual Monitoring the Government's Finances report;

- publishing the annual Leading the Way – Adopting Best Practices in Government Financial Reporting; and
- providing timely advice to government on various accounting and accountability issues that arose during the course of the year (e.g., on how to record payments for "signing bonuses" related to the labour negotiations resolved in 2005/06).

Looking ahead

Overall, for this objective, we are confident that we have accomplished what we set out to achieve. To ensure our efforts keep meeting the expectations set out in our service plan, we will:

- continue to adequately resource and manage our financial statement auditsand projects to meet our professional and quality control standards; and
- provide assurance to the Legislative Assembly on the soundness of the financial statement audit process across the provincial public sector.

Objective 1.2 — The people of British Columbia and their elected representatives are informed of how well the provincial public sector is managing its key risks

Source: Office of the Auditor General of British Columbia

Pam Hamilton, Certified Information Systems Auditor. 18 years with the Office.
Faye Fletcher, Chartered Accountant, Certified Information Systems Auditor. 23 years with the Office.

"Working on the Corporate Accounting System audit provided us with a meaningful way to help the public sector ensure the reliability and integrity of the largest central accounting system in the Province."

Line of Business — Assessing how well the provincial public sector manages its key risks

This objective relates to another important aspect of our work: risk audits. These examinations, often referred to as "performance" or "value-for-money" audits, provide assessments of how well government and its organizations are managing their key risks in delivering programs, services and projects.

This is a challenging objective, since the operations of the Government of British Columbia are very large in size and scope relative to our audit resources. Accordingly, we try to use our resources to focus on the issues of greatest significance, interest and value to legislators and the people of the province.

Our risk audit recommendations have led to a number of significant improvements in how programs, services and different projects are delivered. The work here is

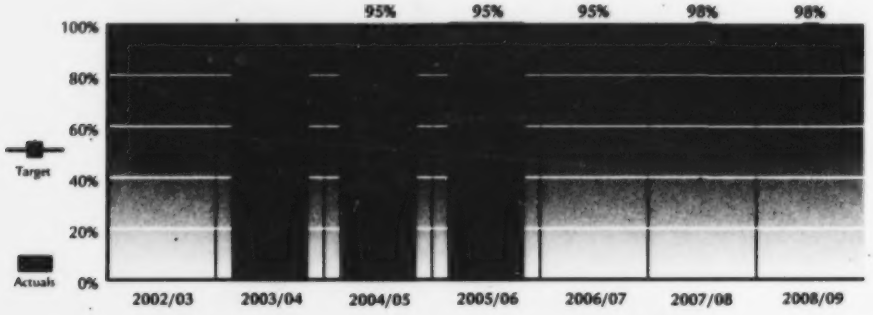
particularly important where major changes and restructuring have occurred. The various reports discussed within our performance measures below provide a sense of the range of subjects we assess in any given year. We also follow up on our risk audit recommendations and report publicly on the implementation status of each recommendation.

What we achieved in 2005/06

We have three key measures with respect to this objective.

3. Legislators believe in the value of our examinations of how risks are being managed

This measure focuses on whether the MLAs we surveyed value our work in this area. Our survey indicates we exceeded our 95% target. In fact, 12 MLAs said they "strongly agreed" that our risk audits were a valuable component of our overall work. (Another three MLAs wanted to reserve judgement until they were more familiar with our work in this area.)



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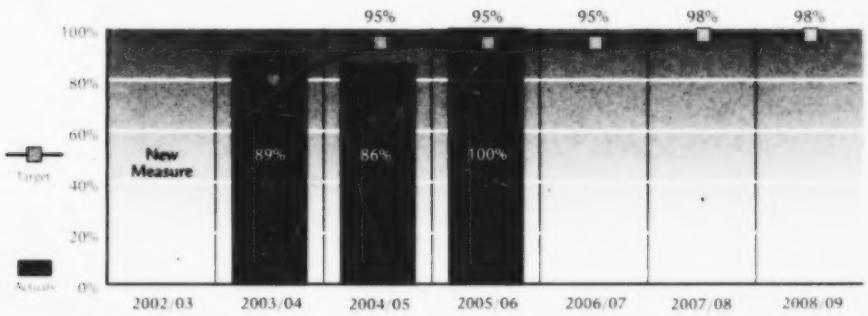

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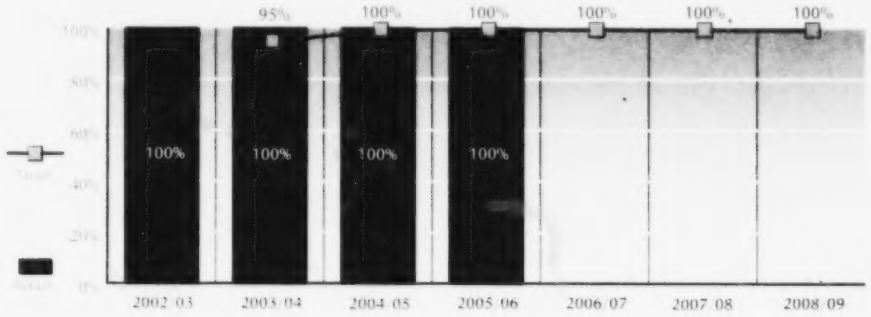
4. Percentage of our risk audit recommendations endorsed by the Select Standing Committee on Public Accounts

This measure focuses on whether MLAs endorse the recommendations we make in our risk audit reports. During 2005/06, the Public Accounts Committee (PAC) endorsed all of the recommendations contained in the two risk audits it reviewed:

- *2004/05 Building a Strong Public Service: Reassessing the Quality of the Work Environment in British Columbia's Public Service*
- *2005/06 Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos*



Data source: the February 2006 PAC report to the House for the 1st session of the 38th Parliament

Description

Each of our risk audits is referred to the PAC for review and we make presentations to the committee on our findings and recommendations. Endorsement of our risk audit recommendations by the PAC is a key measure of legislators' support of the Office's work.

5. Percentage of our recommendations implemented within two years

This measure relates to whether our risk audit recommendations have been implemented within two years. The data we have indicate that the target of 80% was not met.

The risk audit projects we published two years ago included:

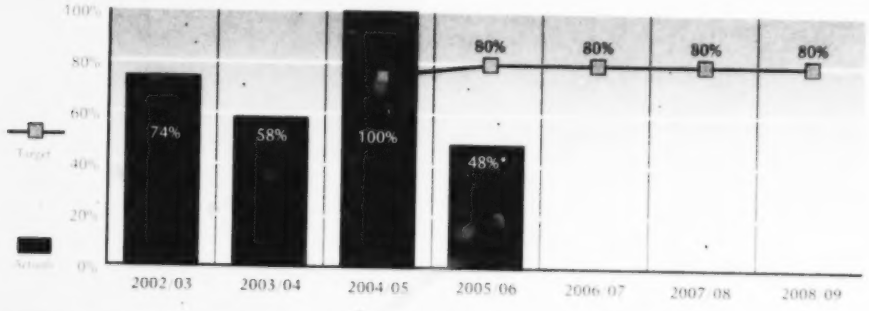
- *A Review of Performance Agreements Between the Ministry of Health Services and Health Authorities*
- *Alternative Payments to Physicians: A Program in Need of Change*

A third risk audit published that year, our *Audit of the Government's Review of Eligibility for Disability Assistance*, did not contain any recommendations.

On the first risk audit project, we have data that allow us only to confirm that 50% (10 out of 20 recommendations) were implemented after 14 months. However, our understanding is that further progress has since been made and we are currently following up with the Ministry of Health on these issues. On the second risk audit, our current data covers the first 18-month period when 11 of the 24 recommendations were implemented.

Both of these audits had a large number of recommendations that needed to be addressed. It was recognized at the time that some of the recommendations related to fundamental program and operational management changes that would take significant time and effort to achieve.

However, even for the recommendations that have not yet been implemented, we know that each of our recommendations is being actively pursued, with one exception. We will be following up on these outstanding recommendations and reporting publicly on our review of their status.



Data source: the results of our follow-up reviews: *Follow-up of Two Health Risk Reports: A Review of Performance Agreements and Follow-up of 2003/04 Report 4: Alternative Payments to Physicians: A Program in Need of Change*. In 2005/06, data cover a 14- to 18-month period, and not the full two years indicated by the measure.

Description

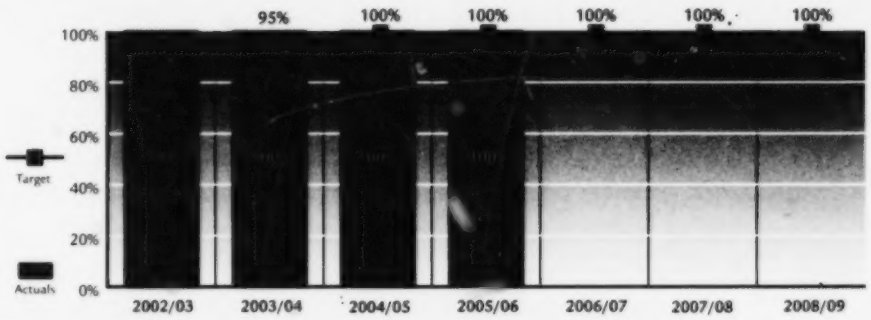
This measure provides us with an indication of the attention and support that management gives to the recommendations of our Office that are endorsed by the PAC. The measure reports on the percentage of recommendations contained in reports published two years ago (e.g., between April 1, 2003, and March 31, 2004, for 2005/06 actual results) that have been fully or substantially implemented.

Although we expect all of our recommendations to be implemented at the time we make them, our targets are less than 100% because we know there can be valid reasons why some of them are not implemented within two years. In some cases, for example, a program or circumstances may change so that some recommendations are no longer relevant. In other cases, our recommendations are more complex and require longer than two years to implement.

4. Percentage of our risk audit recommendations endorsed by the Select Standing Committee on Public Accounts

This measure focuses on whether MLAs endorse the recommendations we make in our risk audit reports. During 2005/06, the Public Accounts Committee (PAC) endorsed all of the recommendations contained in the two risk audits it reviewed:

- *2004/05 Building a Strong Public Service: Reassessing the Quality of the Work Environment in British Columbia's Public Service*
- *2005/06 Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos*



Data source: the February 2006 PAC report to the House for the 1st session of the 38th Parliament.

Description

Each of our risk audits is referred to the PAC for review and we make presentations to the committee on our findings and recommendations. Endorsement of our risk audit recommendations by the PAC is a key measure of legislators' support of the Office's work.

5. Percentage of our recommendations implemented within two years

This measure relates to whether our risk audit recommendations have been implemented within two years. The data we have indicate that the target of 80% was not met.

The risk audit projects we published two years ago included:

- *A Review of Performance Agreements Between the Ministry of Health Services and Health Authorities*
- *Alternative Payments to Physicians: A Program in Need of Change*

A third risk audit published that year, our *Audit of the Government's Review of Eligibility for Disability Assistance*, did not contain any recommendations.

On the first risk audit project, we have data that allow us only to confirm that 50% (10 out of 20 recommendations) were implemented after 14 months. However, our understanding is that further progress has since been made and we are currently following up with the Ministry of Health on these issues. On the second risk audit, our current data covers the first 18-month period when 11 of the 24 recommendations were implemented.

Both of these audits had a large number of recommendations that needed to be addressed. It was recognized at the time that some of the recommendations related to fundamental program and operational management changes that would take significant time and effort to achieve.

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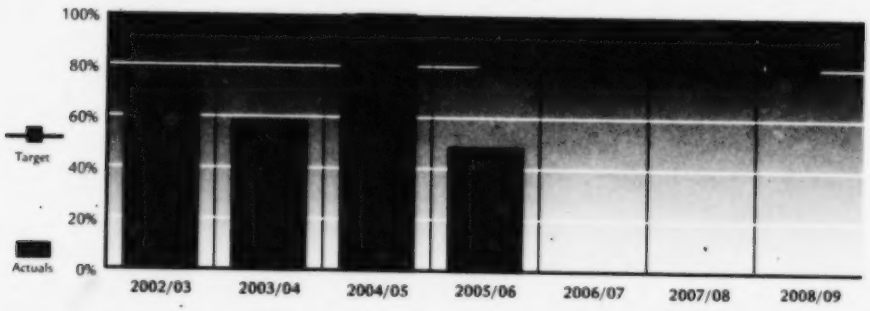

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Other achievements in 2005/06 related to this objective included publishing three risk audit reports:

- *Audit of the Government's Corporate Accounting System: Part 1*
- *Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos*
- *Managing Pharmacare: Slow Progress Toward Cost-Effective Drug Use and a Sustainable Program*

We also followed up on three of our previous audits:

- *Follow-up of the Recommendations of the Select Standing Committee on Public Accounts Contained in Its Fourth Report of the 3rd Session of the 36th Parliament: Earthquake Preparedness; Performance Audit*
- *Joint Follow-up of 2001/02 Report 1: Managing Interface Fire Risks and Firestorm 2003 Provincial Review*
- *Follow-up of 2003/04 Report 4: Alternative Payments to Physicians: A Program in Need of Change*

We had indicated in our 2005/06–2007/08 Service Plan that we would conduct risk audit work on access to healthcare and the forest revenue system. However, this work was delayed in order to complete audit projects discussed above and in our other lines of business.

Looking ahead

Although we are pleased with what we have accomplished in meeting this objective, there is much work ahead. While we plan to dedicate internal resources to following up on the outstanding recommendations made in the risk audits published two years ago discussed above, we are considering how best to use our limited resources on future follow-up reports.

Generally, we intend to continue focusing our examinations on four key sectors: education, health, natural resources and finance. In addition, our work on other risk audits will focus on cross-government and such priority topics as aboriginal issues, social services and sustainability – including a second report on the estimates for the 2010 Olympic and Paralympic Winter Games. This approach was outlined in our 2006/07–2008/09 Service Plan and focuses our efforts on those areas where our work is of most value.

Objective 1.3 — The provincial public sector provides relevant and reliable information about what it is trying to achieve and how successful it has been in doing so

Line of Business — Assessing the quality of provincial public sector performance reports

The Budget Transparency and Accountability Act requires government as a whole, ministries, and government organizations to report publicly on their performance, with a focus on results. In October 2003, the Public Accounts Committee, government and the Auditor General agreed on a comprehensive suite of performance reporting principles designed to guide government organizations in how they report on the results they have achieved.

We assess how well government's performance reports meet these general principles, and we encourage better performance reporting overall.

The work we do promotes greater accountability on all major aspects of an organization's performance. Public organizations have multiple bottom lines – not just financial – and our performance report assessments outline how well government has reported on its overall performance.

What we achieved in 2005/06

We have three key measures to indicate whether we have met our objective in this area.

6. Percentage of government's annual reports that have reached "Fundamentals in Place"

The first is to report on how well government has met the standard as set by the BC performance reporting principles. Obtaining a "Fundamentals in Place" assessment means an organization is substantially on its way to meeting the principles. The performance targets of 80%, 40% and 15% for 2005/06 were not met in this nor in prior years. This has caused us to rethink our approach and our targets. Accordingly, we have refocused our work in this area as outlined in our 2006/07–2008/09 Service Plan. Instead of reviewing all ministry and major Crown corporation reports, we

Image: Office of the Auditor General of British Columbia

Chris Thomas, B.A. (Political Science), Chartered Accountant. *2 years with the Office.*
Kim Lane, B.Sc (Mathematics and Linguistics), Bachelors in Architecture, Chartered Accountant. *20 years with the Office.*

"The Office provides us with a wide range of interesting and complex assignments that enables us to apply our skills in new areas, such as public-private partnerships."

concentrated on those organizations with a more significant role in delivering government's five key goals. This approach meant we reviewed 21 reports in total, compared with 35 reports the previous year. In addition, now that we have a few years of data to consider, we revised our future year targets to reflect a more gradual improvement.

Measure	2003/04 Actual (restated)	2004/05 Actual (restated)	2005/06 Actual	2005/06 Target	2006/07 Target (restated)	2007/08 Target (restated)	2008/09 Target (restated)
6. Percentage of government's annual reports that have reached "Fundamentals in Place" for:							
■ 1 reporting principle	25%	49%	48%	80%	55%	65%	75%
■ 2-4 reporting principles	8%	22%	35%	40%	40%	45%	50%
■ 5-8 reporting principles	3%	8%	13%	15%	15%	20%	25%

Data source: our assessments of the annual reports of government contained in our series Building Better Report and *Annual Reports of WorkSafeBC and the Public Guardian & Trustee*. To better understand this measure, readers can review the methodology we use to assess the quality of government's performance reports, outlined in Building Better Reports: Appendix B The office of the Auditor General Assessment Methodology.
It is available at www.bcauditor.com

Description

While it is government's responsibility to improve its performance reporting, we believe we can have a significant influence on the quality of the reporting through our assessments. By indicating the extent to which government's performance reports are incorporating the BC Performance Reporting Principles, this measure tracks improvement in government's reporting over time. The tool we used to assess government's annual reports is based on the BC Performance Reporting Principles and has four stages: Start-up, In Process, Fundamentals in Place, and Fully Incorporated. We believe that reaching the "Fundamentals in Place" stage indicates that an annual report has addressed the most significant elements, although further improvements are possible. The measure reports on a cumulative basis,

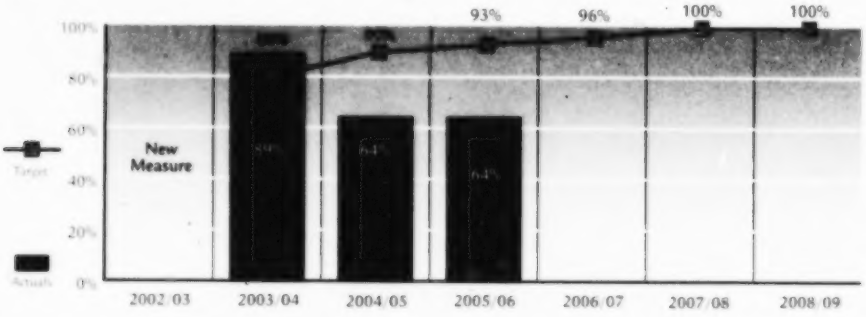
- the results of our annual cross-government assessment of the quality of reporting published in our *Building Better Reports* series, and
- the results of assessments we conduct as part of assurance engagements.

The target and result for each year are related to government annual reports published in the fiscal year. So, for example, the actual percentage for 2005/06 is based on our assessments of annual reports for the year ended March 31, 2005, that were published in June 2005.

We have struggled with how best to measure and report results in this area due to changes in the structure of government year over year, and changes in the number of assessments we conduct in any given year. The results presented above show the proportion of assessments at each level out of the total number of reports assessed. The size and composition of this total may change from year to year. Previous results and targets for future years have been restated to reflect this approach and to include the government-wide report. The targets are based on general improvements we have seen to date and on the improvements we believe will continue given the in-depth debriefing of the assessment we provide each organization every year. These targets guide us in assessing the success of our efforts.

7. Legislators believe in the value of the Auditor General's efforts in the area of performance management and reporting

This measure indicates whether the work related to this objective is valued by MLAs we surveyed. Our 2005/06 target was 93%. Our actual result of 64% falls short of this target, but was consistent with the previous year's result. Notably, however, there were eight MLAs (over 40% of our total interviewees) who responded that they did not yet know if our efforts in this area had value. This raises concerns for us and indicates we must do more to raise awareness of our work if we are to meet our future targets.



Data source: annual survey of legislators serving on the Legislative Assembly's Select Standing Committee on Public Accounts and, for 2005/06, of legislators serving on the Select Standing Committee on Finance and Government Services. To note, in 2005/06, eight MLAs reserved their opinion on this issue because of a lack of familiarity with our audit work.

Description

This measure reflects legislators' opinions about the impact of our efforts to encourage government to improve the quality of its performance reports. The results indicate the percentage of legislators who strongly or somewhat agreed with the statement made within the measure. Important to note: legislators who "neither agree nor disagree" with the statement are grouped in with the remainder of the responses.

8. Legislators make use of government's performance reports in their deliberations or decision-making

The results for the third performance measure for this objective also concern us. In 2005/06, only 50% of the MLAs surveyed actually used government's performance reports. Not only is there a wide gap between the 2005/06 result of 50% and the 92% target, but the 2005/06 result is significantly lower than the previous years' results. We need to review how exactly our performance is tied into this result and make changes accordingly.

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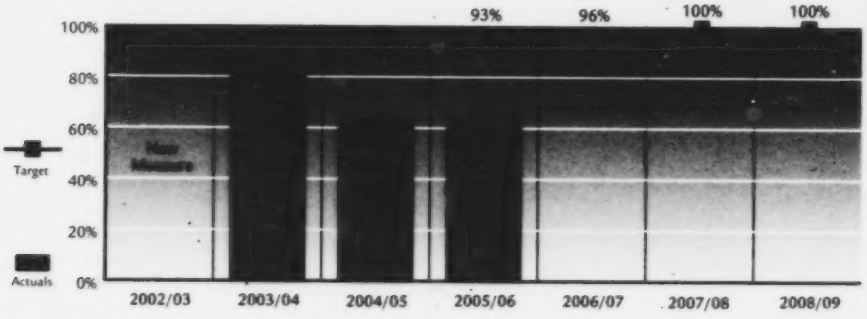

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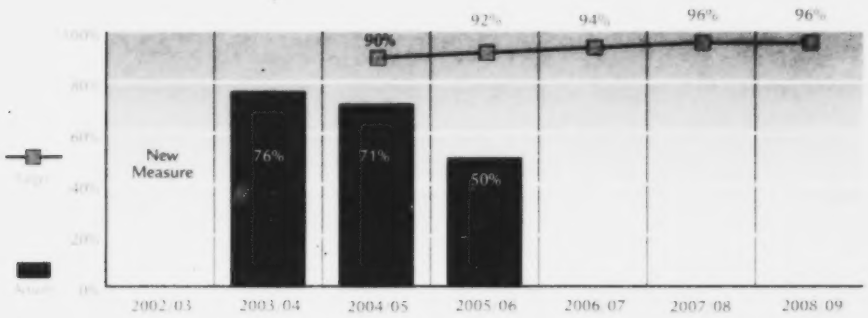

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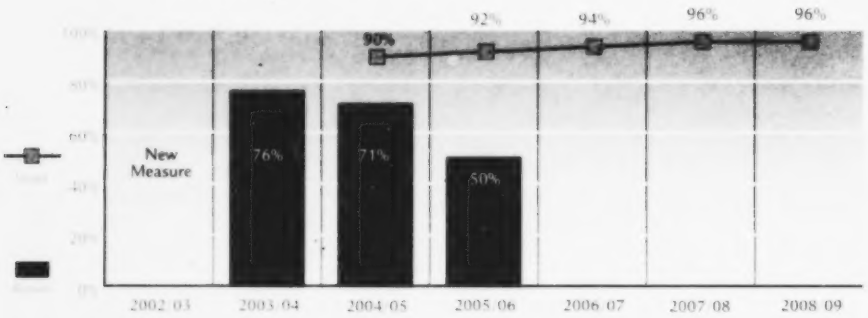
Other achievements in 2005/06 related to this objective included:

- providing our review opinion with respect to Partnerships BC's report *Achieving Value for Money: Sea-to-Sky Highway Improvement Project*; and
- participating in the development of a national statement of recommended practice for government performance reporting through our involvement with the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

Looking ahead

The results indicate we need to make some significant improvements in our performance under this objective. We will be developing focused strategies to help us meet our targets and will work to build legislators' awareness of our work and the usefulness of performance reporting.

In addition, we will be considering the results and impacts of our assessments of government's public-private partnership value-for-money disclosure reports and developing a plan for future work in this area.



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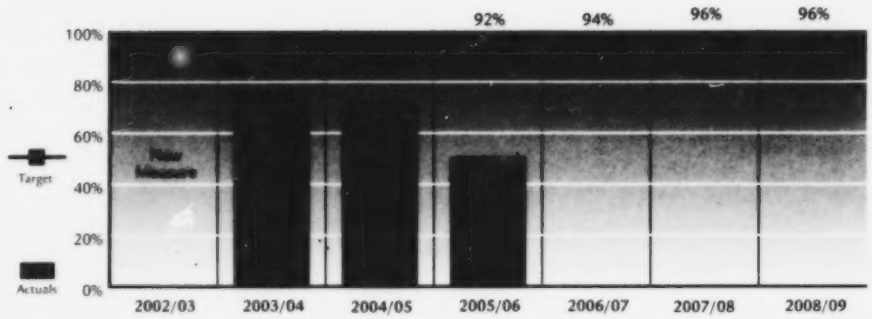

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Goal 2

Our work meets the highest standards and is carried out in an exemplary manner

Key risks facing the Office

In 2005/06, we spent $5.57 million on Goal 2 objectives and strategies. Goal 2 addresses many of our organization's values and is structured around our key risks. The resources spent on this goal reflect the importance we place on ensuring the work described in Goal 1 is carried out well.

Credibility	Our work is done in an efficient, effective and professional manner. *We cannot be successful if we provide inappropriate or incorrect assurance and advice. Our reputation is critical to our success.*
Independence and Objectivity	Our Office is independent from political parties and from the provincial public sector, and provides objective assessments. *We cannot be successful if we lose, or are perceived to lose, our independence or objectivity.*
Relevance	Our work program is relevant to the needs of the public and its elected representatives. *We cannot be successful if we do not adequately understand or respond to the information needs of our clients and stakeholders.*
Capacity	We have the human resources to complete our work effectively. *We cannot be successful if we are not able to recruit and retain high quality professionals.*
Work Environment	Our work environment effectively supports our audit process and helps to make the Office an attractive place to work. *We cannot be successful if we do not have the necessary mechanisms and tools – planning, human resources, training, information systems and business supports – that we require to do our work competently and effectively.*

Objective 2.1 – Credibility: Our work is done in an efficient, effective and professional manner

Our credibility is essential to our role as British Columbia's Auditor General. This role comes with a significant responsibility to the people of the province to "get it right." That is why credibility is one of our key risks and to emphasize its importance, we have made it a stand-alone objective.

We strive to preserve our credibility by ensuring that our work is guided by sound audit methodologies and quality control policies and processes, and by focusing on the efficiency and the timeliness of our work.

Accounting and auditing standards continue to undergo unprecedented public scrutiny and change. A number of new standards have significant implications for how we carry out our work. In addition to making changes within our own operating environment, we must stay up to date with developments in the accounting and auditing profession.

What we achieved in 2005/06

We have four key performance measures for this objective.

9. Level of compliance with CICA quality control standards

The first of these measures focuses on whether our audit quality control processes meet national auditing standards. While we have always strived to ensure our quality control standards are strong, the last few years have been unusual in the amount of resources we have had to dedicate to comply with CICA standards as they take shape. Our expectation was that we would be fully compliant with CICA standards by the end of 2005/06. We measure our compliance with the CICA standards using interpretation guidance developed by the Canadian Public Accountability Board (a board that oversees the auditors of public companies in Canada). However, while we were substantially compliant, we cannot report having fully met our target. All of our policies and the vast majority of our processes were in place and we fell short in only a few areas (e.g., we provided professional development opportunities, but not through a formal Office-wide curriculum). We will continue to dedicate the resources needed to be fully compliant in 2006/07.

Measure	2003/04 Actual	2004/05 Actual	2005/06 Actual	2005/06 Target	2006/07 Target	2007/08 Target	2008/09 Target
9. Level of compliance with CICA quality control standards	Interpreting new professional standards	Self-assessment completed and practices still under development	Substantially compliant	Fully compliant	Fully compliant	Fully compliant	Fully compliant

Data source: self-assessment of the current quality control processes carried out by our Professional Practices group and the Office's *Quality Assurance Manual*.

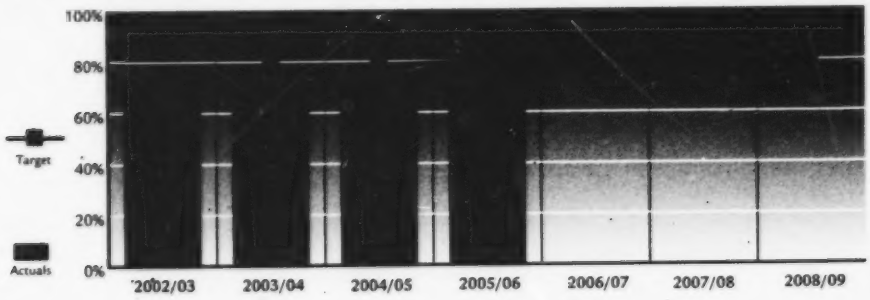
Description

The Canadian Institute of Chartered Accountants (CICA) has issued new quality control standards for firms (including legislative audit offices) that perform assurance engagements and for each assurance engagement (both financial and non-financial). These standards came into effect on December 1, 2005. Although quality control has always been an important component of our internal processes, the new standards more specifically define higher expectations for firms and for individual assurance engagements.

We have changed how we describe our targets in keeping with our latest service plan. Our previous annual report indicated our target to be 100%. However, we believe that a qualitative target instead of a quantitative target is a more reflective indication of our performance with respect to this measure.

10. Percentage of audit hours of operational staff charged against annual available hours

The next performance measure indicates how much time audit staff dedicates to specific audit projects as opposed to training or updating general knowledge of a specific sector or issue. The 2005/06 result of 77% is a minor improvement over the previous year's result (73%), but does not yet meet our 80% target. Part of our improvement in this area relates to greater consistency in how we account for our time. However, tangible improvements will only occur as we dedicate more of our time towards direct audit work.



Data source: our internal management systems.

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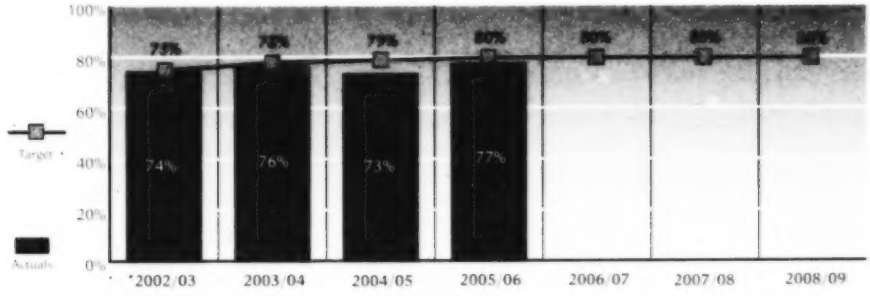
10. Percentage of audit hours of operational staff charged against annual available hours

The next performance measure indicates how much time audit staff dedicates to specific audit projects as opposed to training or updating general knowledge of a specific sector or issue. The 2005/06 result of 77% is a minor improvement over the previous year's result (73%), but does not yet meet our 80% target. Part of our improvement in this area relates to greater consistency in how we account for our time. However, tangible improvements will only occur as we dedicate more of our time towards direct audit work.



Data source: our internal management systems

Description

This measure shows the percentage of total annual available hours spent by operational staff directly on audit work during the year. Annual available hours represent total hours charged by staff, minus leaves and vacations. Operational staff includes all assurance staff, audit management staff and executives.

11. Percentage of projects completed on time; and

12. Percentage of projects completed on budget

We are a project-based, professional service organization. Sound management of our individual audit projects is a significant tool in achieving our overall organizational efficiency. This next measure indicates how well we have been able to keep our projects on time and on budget.

In our last service plan, we rolled up individual lines of business statistics into an Office-wide measure to report on-time and on-budget projects. In 2005/06 we did not meet our targets of 85% for either category, although we were very close to our on-time target (at 82%). We will need to apply greater project management discipline across all three lines of business to meet our targets next year. The most challenging projects to manage continue to be our risk audits. Each of these projects is unique in terms of subject matter and resource requirements, which makes it hard to predict the amount of time or resources necessary. As well, these audits tend to be more controversial and, in some ways, more complicated to complete – both aspects that affect our ability to keep them on time and on budget.

Despite the difficulties, we have undertaken an Office-wide initiative to improve our project management so that staff and executive members are better informed of audit progress and able to make adjustments when necessary. While full implementation of this initiative will be gradual, we expect modest improvements in the first year.

Measure	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2005/06 Target	2006/07 Target	2007/08 Target	2008/09 Target
11. Percentage of projects completed on time.	75%	80%	90%	82%	85%	85%	85%	85%
12. Percentage of projects completed on budget	60%	39%	55%	46%	85%	85%	85%	85%

Data source: our internal management information system. The usefulness of these measures is limited by their inability to provide weighting. Missing the deadline or exceeding the budget on a major audit counts the same as for a smaller audit.

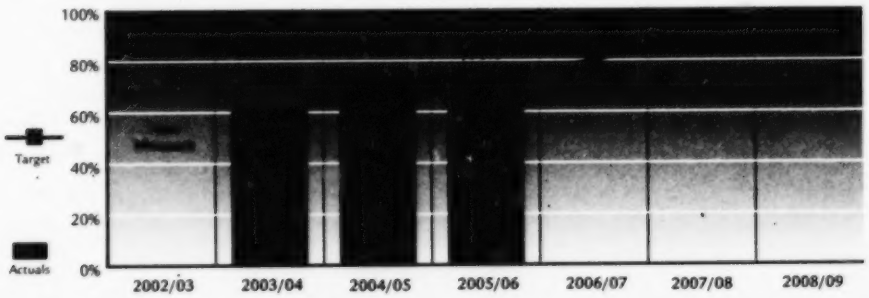
Description

We define "on time" as meeting or beating the deadline defined in the audit plan. Completing projects within budgets reflects accurate planning and effective use of resources. We define "on budget" as being within 5% of the budget outlined in the audit plan.

13. Audited organizations are satisfied with the way we conduct our work

This next measure relates to our professionalism in carrying out audits. Our results almost mirror those of the previous year, with a 76% satisfaction rating based on a 60% response rate. We met our target of 75% for 2005/06 in this area.

While meeting our targets is certainly a positive outcome, we strive to continuously improve our performance. For example, our ratings on our assessments of government's performance reports were lower for our other lines of business. In response, we better communicated our preliminary findings with ministry and Crown corporation staff. The results of these improvements will, we hope, raise our overall performance on this measure in 2006/07.



Data source: survey of organizations at the completion of each assurance engagement. The two responses that correspond with the key measure above are tabulated, aggregated and a percentage score calculated.

Description

The credibility of the Auditor General is of critical importance to the organizations we audit. We maintain our credibility by preserving our independence and objectivity and ensuring all work meets the highest standard. Our standards of service require us to approach our work in a fair and considerate way that ensures our findings and recommendations are sound and relevant. We survey those we audit to monitor their perceptions of our ability to maintain our credibility and meet our professional standards.

We compiled the answers from a 5-point rating scale (from very good to very poor) used in relation to the following two statements:

- The auditors exhibited an objective attitude while conducting the audit.
- The findings of the audit were reported in an objective and fair manner.

Description

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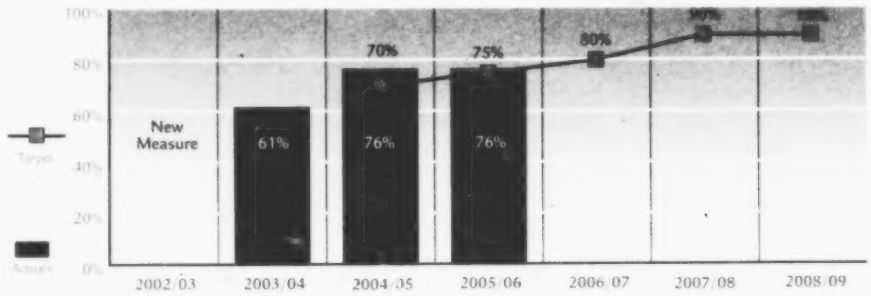

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- The auditors exhibited an objective attitude while conducting the audit.
- The findings of the audit were reported in an objective and fair manner.

Related to this objective, the Office works to ensure its credibility in other ways as well. For example, we maintain active involvement in professional accounting organizations such as:

- the Canadian Council of Legislative Auditors (CCOLA), our counterparts across the country – our ability to tap into the shared expertise of other legislative auditors provides us with resources and information beyond our own internal capacity; and
- the Canadian Institute of Chartered Accountants (CICA), the standard-setting body in Canada for accounting and assurance (auditing) standards – we were involved with two committees working to develop standards for the industry.

In 2005/06, the Institute of Chartered Accountants of British Columbia (ICABC) reviewed our auditing practices. The purpose of the review was to confirm our licence to operate as a designated training office for accounting students. Based on the results of this limited scope examination, we received ICABC's approval to continue our licence.

In addition, for the first time, we had this annual report externally audited by Grant Thornton LLP, a private sector auditing firm chosen by the Legislative Assembly through a competitive bid process. Grant Thornton's audit opinion on our overall annual report is included on page 5.

Looking ahead

As discussed above, we have many strategies in place to preserve our credibility. For example, to improve the efficiency of our audit projects, we will adopt improved project management processes to help ensure we meet our on-time and on-budget targets. A priority will be to fully implement our new quality control policies to meet the auditing profession's new standards, e.g. internal monitoring and post-audit assessments to ensure compliance with our new polices.

Objective 2.2 — Independence and Objectivity: Our Office is independent from political parties and from the provincial public sector, and provides objective assessments

The primary value of our Office is that we provide legislators, the public and government with independent assessments about the performance of the public sector. If that independence were compromised, our perceived value would be severely diminished. Accordingly, we devote considerable management attention to our independence.

The Auditor General Act also has a number of provisions to help ensure our independence. For example, the Auditor General reports directly to the Legislative Assembly, not to the government of the day.

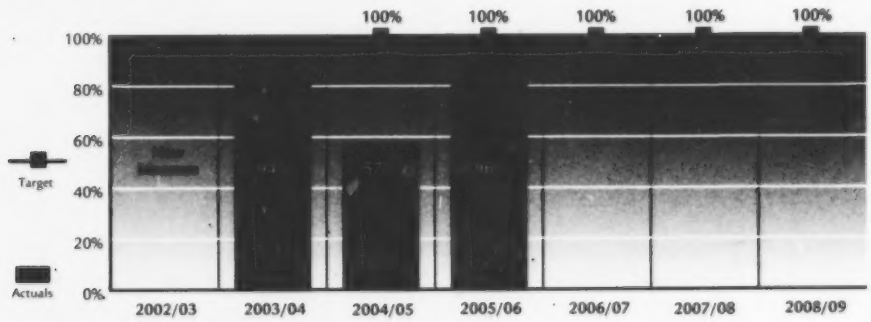
In addition, Canadian generally accepted auditing standards require all assurance engagements to be performed with due care and with an objective state of mind. Our audit methodologies and quality control processes (referred to under Objective 2.1) are designed to ensure that individually and collectively we meet this standard in all our work.

What we achieved in 2005/06

14. Legislators believe information in the Office's audit opinions/reports is presented in an objective and unbiased manner

Our measure for this objective indicates whether our audits are seen to be objective and unbiased. For 2005/06, our survey asked MLAs to rate our performance on this issue across all of our lines of business. Previously, we had asked only about our risk audits because this measure was originally intended for Objective 1.2, which focuses solely on risk audits.

Our target was 100%, so with a 96% result we were very close in meeting this target. Important to note is that some MLAs opted to reserve their opinion until they had more experience directly with our reports (two reserved their opinion on our risk audits and eight reserved opinion on our performance report audits). While we did not fully meet our target, the overall result is still very high and a significant improvement over last year's result.



Data source: annual survey of legislators serving on the Legislative Assembly's Select Standing Committee on Public Accounts and, for 2005/06, of legislators serving on the Select Standing Committee on Finance and Government Services. (Data for 2003/04 and 2004/05 relates only to the Office's risk audits. The data cannot be restated to include financial statement audits or performance reporting projects because the information was not collected during those years.)

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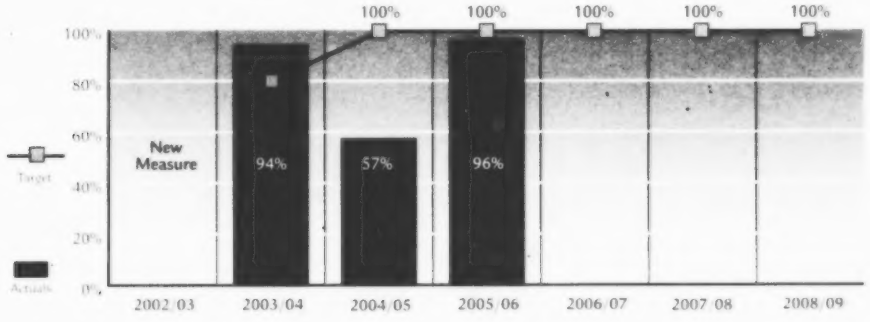

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Description

An important facet of our independence lies in our ability to provide audit reports that present our findings and conclusions in an objective and unbiased manner. This measure reflects legislators' views of the extent to which we have achieved that goal. The results indicate the percentage of legislators who strongly or somewhat agreed with the statement made within the measure. Important to note: legislators who "neither agree nor disagree" with the statement are grouped in with the remainder of the responses.

The audits we conduct across all our lines of business have many checks and balances in place to guard against bias and lack of objectivity (e.g., there are different levels of scrutiny that each audit goes through). In addition, our reports are reviewed by the audited organization, which also has the opportunity throughout the audit to point out any concerns. Because we publish the audited organization's response to our audit within our final report, any unresolved concerns are publicly documented and raised when we present our audit to the Public Accounts Committee.

As well, staff members within the Office take pride in the integrity of their work and are subject to a variety of codes of conduct, depending on their professional backgrounds, including the Standards of Conduct for Public Service Employees.

Looking ahead

In discussions with MLAs during our last annual survey, we received very helpful feedback on how to convey our objectivity and independence. Specific actions we will take include discussing with the Public Accounts Committee aspects of our methodology that help ensure our independence and objectivity (e.g., how we develop our audit criteria and the fact we have external experts advise us on the topics being audited). Our new quality control standards have also established stronger provisions in this area, including the requirement for each staff to complete an annual independence and objectivity declaration.

Objective 2.3 — Relevance: Our work program is relevant to the needs of the public and its elected representatives

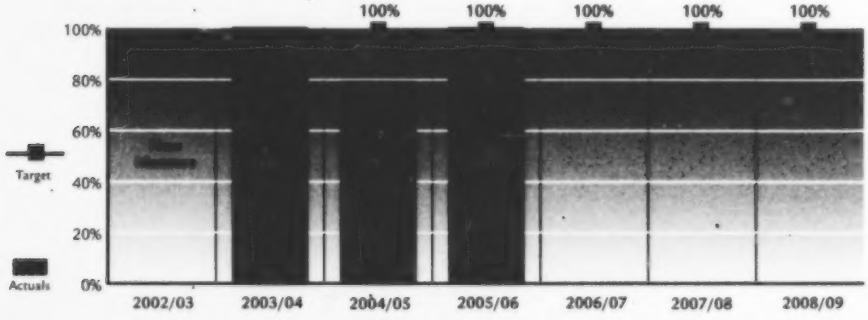
Our relevance is dependent on our understanding of the needs of our main client groups, the general public and legislators. During our annual survey of MLAs, we specifically asked how much they valued the work related to each of our three lines of business. While these results have already been discussed under Goal 1, there is a strong link between those results and this objective. In our view, greater value means greater relevance. Overall, the MLAs surveyed replied that our financial statement and risk audits were highly valued but did not provide as strong an endorsement for our performance reporting projects.

We also asked MLAs during the survey about the relevance of the topics chosen for our risk audits. This is the line of business that requires us to make the hardest decisions about what topics to audit. The nature of risk audits is that they are in-depth examinations of the subject matter being audited, and therefore each one requires significant resources. In using this information as our key measure here, we have set a fairly high standard for the Office.

What we achieved in 2005/06

15. Legislators believe topics chosen by the Auditor General are relevant

Our actual result of 100% meets our target and improves on our previous year's result. In fact, not only did all MLAs respond that they agreed we have chosen the right risk audit topics, but many responded that they "strongly" agreed we had. (Again, a few MLAs – four in total – asked to reserve their opinion until they gained more experience with our work.)



Data source: annual survey of legislators serving on the Legislative Assembly's Select Standing Committee on Public Accounts and, for 2005/06, of legislators serving on the Select Standing Committee on Finance and Government Services.

Description

Focusing our efforts on topics that are relevant to legislators is critical to our effectiveness. Relevance is confirmed when legislators believe our work meets their needs and addresses their priorities. The results indicate the percentage of legislators who strongly or somewhat agreed with the statement made within the measure. Important to note: legislators who "neither agree nor disagree" with the statement are grouped in with the remainder of the responses.

We believe these results reflect the significant efforts we take to continuously update our knowledge of key issues across government and to set priorities within our planning framework. As part of this framework, our corporate accountability documents (Strategic Direction and Funding Proposal, Financial Statement Coverage Plan, Service Plan and Annual Report all serve to ensure that what we are doing is relevant to the public and the Legislative Assembly.

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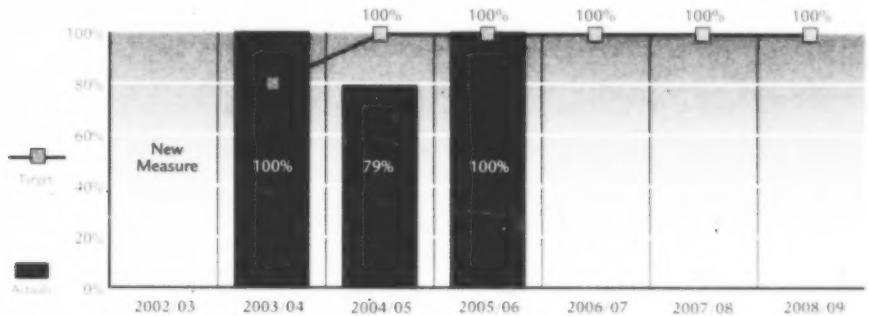

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As opportunities arise, we also obtain the views of senior management of the organizations we audit about what issues are important to the success of their organizations. And, as we are shaping our audit projects, we ask our audit advisory committees (which include external subject area experts) to consider whether we have identified the most critical areas for examination.

In 2005/06, we began to inform the Public Accounts Committee of our work more proactively. On the day our reports are tabled in the Legislative Assembly and publicly released, the Auditor General and staff responsible for the audit offer to brief the Chair and Deputy Chair of the Public Accounts Committee on the findings and recommendations within the report. Furthermore, it has been our normal practice to offer to brief the Ministers responsible for the subject matter of our reports before the reports are tabled.

Looking ahead

Maintaining our relevance to MLAs is fundamental to our success as the Legislative Assembly's appointed auditor of the province. We would like to maintain our 100% result on this objective. To do so, we believe we need to continue being more proactive in informing MLAs on our work and taking a consistent and well-considered planning approach to the work across the Office.

Objective 2.4 — Capacity: We have the human resources to complete our work effectively.

The most important component of our capacity is our people. While staffing lags had an impact on our capacity, for the most part, we retained and recruited sufficient staff and contracted individuals and firms with the diverse expertise and knowledge necessary to carry out the broad range of work required of us in 2005/06.

Much of our work is focused on auditing the financial statements of the provincial public sector. Consequently, we have highly qualified financial auditors holding different types of accounting designations e.g. Chartered Accountant, Certified General Accountant or Certified Management Accountant. Over 67% of our audit staff hold such designations, while another 15% are students working to obtain an accounting designation. Some of these staff also hold other designations and degrees in areas as diverse as architecture, environmental sciences and information systems. Our work in this area also requires us to augment our staff's capacity with short-term contractors, such as during the peak financial statement audit period, just after the province's fiscal year-end (April to June).

Our risk audits are conducted by staff with and without accounting designations. A number of our audit staff (18%) who do not have accounting backgrounds carry

credentials in areas such as health care management, public administration and law. When other subject-matter experts are needed, we contract firms or individuals with the knowledge we need. These individuals include statisticians, economists or sector-specific management consultants and specialists.

Our performance reporting line of business also relies on a blend of staff with or without accounting backgrounds, who have specific training in performance management and reporting.

In addition, our Corporate Services staff members carry expertise in areas including business administration, information technology management, human resources and administrative services.

The work of contracted firms or individuals is subject to similar quality control standards in place within the Office for internal staff e.g., a declaration of professionalism and a representation of objectivity is required.

What we achieved in 2005/06

In last year's service plan, we had a learning and development performance measure attached to this objective. Since this objective now focuses solely on "having the right people in the right place," we moved the learning and development measure into our next objective related to work environment support.

Our current service plan states that in 2006/07 it will be a priority for us to develop a new measure for this objective. This new measure will need to bring together a number of important capacity initiatives we have in place. First among these initiatives is to manage our staff composition carefully and ensure we have the right people with the necessary competencies to meet our long-term goals and objectives. In 2005/06, we strengthened the role of our internal Scheduling Committee. The Scheduling Committee better coordinated the staffing resources and project/audit schedule across the Office to improve the match between what we can do and what we plan to do. The Scheduling Committee also carried out a formal process to build a roster of pre-approved service contractors to assist the Office in meeting its work plan.

Source: Office of the Auditor General of British Columbia

Tracy Menzies, Computer Engineering Certificate.
8 years with the Office.
Morris Sydor, B.A. (Geography), MBA, Chartered Accountant.
28 years with the Office

"The Office recognizes the importance of a supportive work environment, whether that means providing the right information technology tools or encouraging employees to participate in events like Bike to Work Week."

To extend our audit capacity in another way, we have initiated concurrent audits with the Office of the Auditor General of Canada. In doing so, we are sharing our resources and building on the strengths we each have in our respective offices.

In recent years, our staff turnover has ranged between 17% and 20%. In 2005/06, we were at 19%, with 16 people leaving our Office. Their reasons varied, including change of career, change of circumstances or retirement. Only a few of these people left the Office to continue doing audit work elsewhere. This means that, although turnover was fairly high last year, the majority of people did not leave the Office for better positions elsewhere. While this is encouraging news, turnover is still a significant problem for us because attracting qualified replacement candidates – in particular, financial statement auditors – has become more difficult. This difficulty is being experienced across the country, not only in legislative audit offices, but also in many private sector firms. Much of the challenge has to do with the additional resources needed to meet new quality control standards being implemented within the auditing profession. We initiated a salary survey in 2005/06 to determine if we can even compete in the marketplace for the skills required. The survey will be completed in 2006/07.

Similarly, demographics will continue to be a significant capacity issue for us. Almost 50% of our audit staff were 50 years of age or older in 2005/06. While retirement plans are individual and personal, the potential for an increase over the coming years in the number of retirees leaving the Office poses an ongoing risk. We are reviewing the leadership and mentoring initiatives we had put into place in past years and assessing the possible need for new strategies.

Looking ahead

While our capacity is based on the amount of funding we receive, we believe we have fairly effectively managed our capacity in meeting our service plan expectations for 2005/06. But, as indicated, there are some underlying capacity issues that will need to be managed well in the future for us to continue to be successful as an Office.

To help us achieve this objective, we dedicated additional resources to our human resources function. These resources will assist the Office to develop a more strategic approach to dealing with some of our capacity issues. This has already led to implementing new job descriptions for the Directors and Project Leaders across the Office. Other initiatives to follow include a review of our competencies framework and of the process for developing employee performance and development plans.

Objective 2.5 — Work Environment: Our work environment effectively supports our audit process and helps make the Office an attractive place to work.

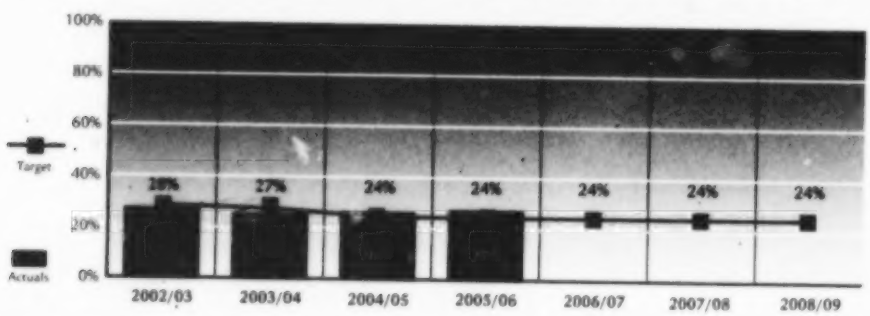
To be an exemplary organization, we seek to provide our audit staff with strong administrative, technical and professional development support, as well as an appropriate physical work environment. Support activities such as corporate planning, information technology, human resources and financial and administrative services are a necessary and integral part of our organization. These support functions equip our audit staff with the right knowledge, tools and resources to perform effectively and efficiently. With limited resources, we must continually strive to optimize support costs and maximize the effectiveness and productivity of our staff.

As a stand-alone objective, we have placed high importance on our overall work environment. We annually survey our staff to find out how well we are doing.

What we achieved in 2005/06

16. Percentage of our resources (measured in dollars) devoted to audit support

Conceptually, the less we spend on audit support, the more we have available for direct audit work. However, as our results indicated in 2005/06, we were back to our 2002/03 level of 27% of resources devoted to audit support. The largest increase in expenditures last year was $100,000 for information technology improvements. We upgraded our systems security, network access and software/hardware so that staff can work more efficiently. There were also small budget increases to both the corporate planning and human resource functions of the Office. These steps were taken because we recognized that such support functions were important contributing factors to the overall success of the Office. As for many of our targets, we will need to consider whether 24% is the right target figure for our Office.



Data source: our internal management information system.

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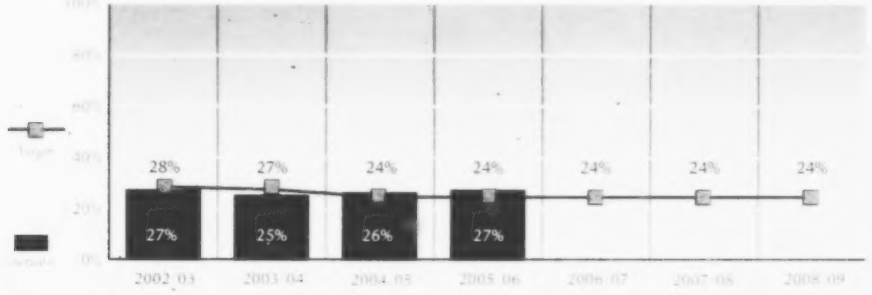


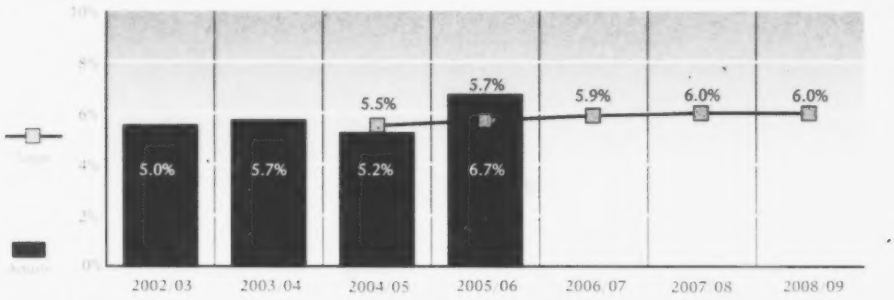
Data source: our internal management information system

Description

This measure shows the cost of audit support (such as planning and reporting, human resource management, technology, rent and depreciation, and general office administration) as a percentage of total office costs.

17. Percentage of actual expenditures invested in learning and professional development

In terms of our learning and development activities during 2005/06, we spent more in this area (6.7%) than targeted (5.7%), but we believe this was appropriate. For example, in implementing our new quality control standards, we have required more training than in past years. We doubled the number of mandatory training days from three to six days for all of our financial statement audit staff. Consequently, we are spending approximately $460,000 in training expenses (including staff time). In the past, we recognized the need to boost the amount of learning and professional development across the Office. Now that we have done so, it is time to step back and consider a more structured approach to our training activities. This will be a priority assignment for our human resources staff in 2006/07.



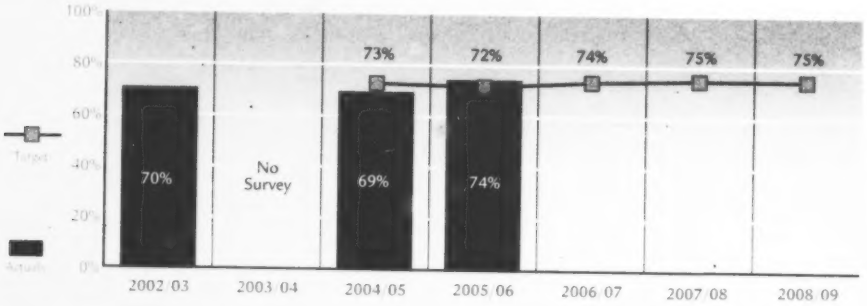
Data source: our internal management information system

Description

This measure represents investment in learning and professional development as a percentage of actual expenditure, and includes all course fees plus the travel, salary and benefits costs of time spent on training and professional development activities. This figure does not include costs related to our student-training program.

18. Work environment engagement score

Staff members frequently cite positive reasons for investing their careers in the Office including its important mandate, challenging work assignments and workplace values. In 2005/06, the Office's result of 74% of work environment engagement surpassed its 72% target on this performance measure. This result reflects the seven areas within the work environment survey we conduct annually (see "Description" in the box below). Based on the results of our survey the previous year, we made a concerted effort to improve our work environment. Many of these efforts focused on leadership, communication and relationships. For example, the Office now holds monthly "All Staff" update meetings led by the Auditor General, keeps staff better informed through Office-wide e-mails and promotes health and wellness initiatives. In addition, we set as a priority the development of an action plan to respond to our work environment survey results. We believe these efforts are reflected in our improved performance for this measure.



Data source: an internal work environment survey, which allows us to understand the overall level of employee engagement. Before 2004/05, we conducted the survey every two years, which is why there is no measure for 2003/04. Starting with 2004/05, we are conducting the survey annually.

Description

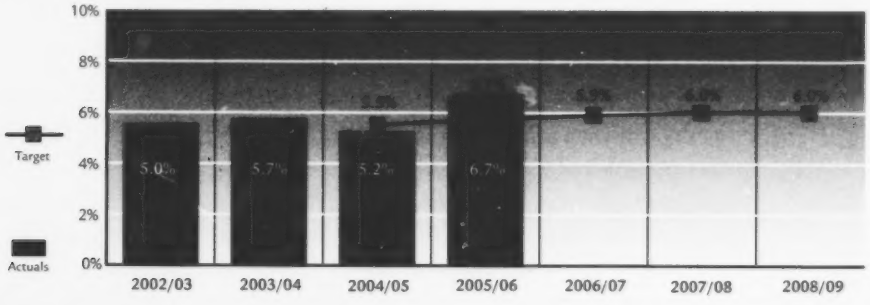
"Engaged" employees are productive and committed. High employee engagement is a predictor of a high-performing organization. This measure shows the percentage of our employees, responding to our internal work environment survey, who said they "strongly agree" or "agree" with the following statements.

- This sector really inspires me to do my best work.
- The work I do makes an important contribution to the Office's success.
- I would highly recommend this Office to a friend seeking employment.
- I think this Office is a great place to work.
- This Office deserves my loyalty.
- I am proud to be part of this Office.
- If you had your way, how likely are you to be working in the Office one to five years from now.

Description
This measure shows the cost of audit support (such as planning and reporting, human resource management, technology, rent and depreciation, and general office administration) as a percentage of total office costs.

17. Percentage of actual expenditures invested in learning and professional development

In terms of our learning and development activities during 2005/06, we spent more in this area (6.7%) than targeted (5.7%), but we believe this was appropriate. For example, in implementing our new quality control standards, we have required more training than in past years. We doubled the number of mandatory training days from three to six days for all of our financial statement audit staff. Consequently, we are spending approximately $460,000 in training expenses (including staff time). In the past, we recognized the need to boost the amount of learning and professional development across the Office. Now that we have done so, it is time to step back and consider a more structured approach to our training activities. This will be a priority assignment for our human resources staff in 2006/07.

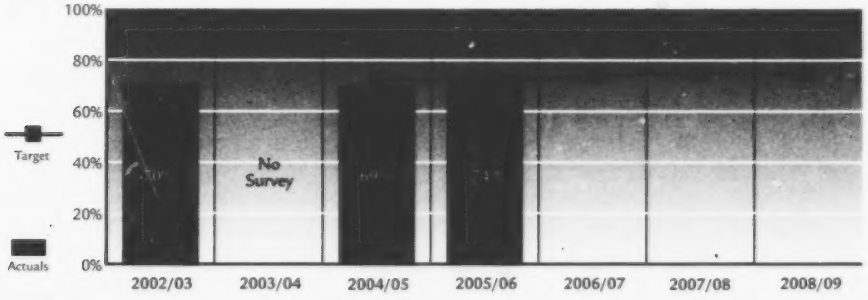


Data source: our internal management information system.

Description
This measure represents investment in learning and professional development as a percentage of actual expenditure, and includes all course fees plus the travel, salary and benefits costs of time spent on training and professional development activities. This figure does not include costs related to our student-training program.

18. Work environment engagement score

Staff members frequently cite positive reasons for investing their careers in the Office including its important mandate, challenging work assignments and workplace values. In 2005/06, the Office's result of 74% of work environment engagement surpassed its 72% target on this performance measure. This result reflects the seven areas within the work environment survey we conduct annually (see "Description" in the box below). Based on the results of our survey the previous year, we made a concerted effort to improve our work environment. Many of these efforts focused on leadership, communication and relationships. For example, the Office now holds monthly "All Staff" update meetings led by the Auditor General, keeps staff better informed through Office-wide e-mails and promotes health and wellness initiatives. In addition, we set as a priority the development of an action plan to respond to our work environment survey results. We believe these efforts are reflected in our improved performance for this measure.



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Description

"Engaged" employees are productive and committed. High employee engagement is a predictor of a high-performing organization. This measure shows the percentage of our employees, responding to our internal work environment survey, who said they "strongly agree" or "agree" with the following statements.

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- I think this Office is a great place to work.
- This Office deserves my loyalty.
- I am proud to be part of this Office.
- If you had your way, how likely are you to be working in the Office one to five years from now.

Other significant achievements in 2005/06 related to this objective:

- improving the quality of our internal budget and performance information (e.g., quarterly reports) to help ensure we more effectively meet our goals and objectives;
- implementing a number of information technology improvements without disrupting Office operations; and
- initiating a number of administrative process improvements (e.g. an internal financial controls review).

Looking ahead

We will continue to promote a positive work environment that motivates and supports our staff members in doing their best work. We will continue to:

- provide staff with interesting and challenging work;
- support the growth and development of our staff;
- track our turnover and assess the reasons behind it;
- measure the extent to which staff is "engaged" in the work of the Office and act on the survey results; and
- provide appropriate resources for our audit support functions.

Our financial performance

The discussion and analysis of our financial performance should be read in conjunction with our financial statements and related notes.

Discussion and analysis

Highlights

The work of our Office is funded through a voted appropriation recommended by the Select Standing Committee on Finance and Government Services. This appropriation funds our work across our three lines of business: financial statement audits, risk audits and performance reporting projects. Our funding also provides the operational support we need to carry out our work efficiently, effectively and to the highest standards of quality and professionalism.

Our voted appropriation is net of the recoveries we expect to receive through fee-for-service engagements for work carried out with respect to provincial public sector organizations. In 2005/06, our voted appropriation was $7.67 million and our planned recoveries were $2.3 million, for total funding of $9.97 million.

We plan our expenditures to align with our goals and our work plan. If we receive recoveries beyond our planned level, or if our actual expenditures are less than planned, the excess of revenue over expenses is reported as unused appropriation. Last year, our total expenditures were $10.26 million, which included an unanticipated one-time payment to staff announced at year-end. Our unused appropriation was $273,000, resulting primarily from unanticipated recoveries.

Our planned and actual expenditures for conducting assurance work in our three lines of business (Goal 1) reflect staff hours and other costs, (such as travel and contract services) that are directly attributable to conducting assurance work. Our other expenditures, encompassed in Goal 2, reflect all costs that enable us to perform our assurance work to meet our Goal 1 objectives professionally, credibly and efficiently. Those expenses include rent, information technology, human resource management, training and general administration – all of which are critical, not only in helping us meet our Goal 1 objectives, but also to ensure that our key risks of credibility, independence, relevance, capacity and people are well managed.

Exhibit 7 shows our actual resource allocation across these two goals. The total of Goal 1 and Goal 2 expenditures reflects the full costs of performing the mandated work of our Office. How resources were allocated across our Goal 2 objectives of credibility, independence, relevance, capacity and people is currently in a stage of transition, which means we are unable to report specifically on them here.

Exhibit 7 **Actual allocation of resources across goals**
($ millions)

	Actual	%
Goal 1 – Assurance work	$ 4.69	46%
Goal 2 – Managing key risks	5.57	54%
	$10.26	100%

Actual Results Compared with Planned

In 2005/06, our total planned sources of revenue were $9.97 million. Our actual sources of revenue exceeded our budget by $0.29 million, primarily as a result of unanticipated recoveries from our reviews of the Sea-to-Sky Highway and Canada Line Value-for-Money reports. Exhibit 8 provides a comparison of our planned and actual revenue. The amount the Office recovers each year varies depending on the number and size of the cost-recovery engagements staff conduct. A large portion of these recoveries flows back to private sector auditing firms contracted to carry out work on behalf of our Office. In forecasting recoveries for new work undertaken, estimation uncertainties sometimes give rise to over- or under-budgeting expenses and recoveries.

Although not part of our original approved appropriation, in order to present a complete picture of the finances of the Office, we reported $275,000 as revenue in "Other amounts" for a one-time payment for eligible employees that was announced by government at the end of the year. This amount was also included in our salary and benefits expense.

Exhibit 8

Comparison of planned, actual and prior year revenue
($ millions)

	Fiscal 2005/06 Planned	Fiscal 2005/06 Actual	Variance Planned to Actual	Fiscal 2004/05 Actual	Variance 2005/06 to 2004/05
Sources of revenue					
Voted appropriation	$ 7.67	$ 7.67	$ -	$ 7.07	$ (0.60)
Recoveries	2.30	2.59	(0.29)	2.29	(0.30)
Unused appropriation	-	(0.27)	0.27	(0.08)	0.19
Other amounts	-	0.27	(0.27)	0	(0.27)
	$ 9.97	$ 10.26	$ (0.29)	$ 9.28	$ (0.98)

In 2005/06, about 71% of our expenditures were for salaries and benefits. Excluding the one-time payment to employees, we spent $250,000 less than planned. This variance was primarily the result of lags in hiring, maternity and deferred leaves and postponements in replacing staff departed throughout the year. Uncertainty around the appropriation we are likely to receive in the following year causes us to be conservative in our plans for replacing staff throughout the year. Exhibit 9 provides the breakdown of our expenses relative to our plan and to the previous fiscal year.

Exhibit 9

Comparison of planned, actual and prior year expenses
($ millions)

	Fiscal 2005/06 Planned	Fiscal 2005/06 Actual	Variance Planned to Actual	Fiscal 2004/05 Actual	Variance 2005/06 to 2004/05
Expenses					
Salaries and benefits	$ 7.21	$ 7.24	$ (0.03)	$ 6.81	$ (0.43)
Professional services	1.02	1.14	(0.12)	0.90	(0.24)
Rent	0.51	0.52	(0.01)	0.46	(0.06)
Office expenses	0.32	0.43	(0.11)	0.37	(0.06)
Travel	0.32	0.35	(0.03)	0.23	(0.12)
Information technology	0.26	0.32	(0.06)	0.22	(0.10)
Amortization	0.18	0.12	0.06	0.15	0.03
Public reports	0.09	0.08	0.01	0.08	-
Grants	0.06	0.06	-	0.06	-
	$ 9.97	$ 10.26	$ (0.29)	$ 9.28	$ (0.98)

The variance in salaries and benefits of $0.03 million should be considered in conjunction with the variance of $0.12 million in professional services. We use services of outside professionals to augment our financial audit staff during peak periods and for advisory or consulting services on our risk audit work. In 2005/06, we also contracted a human resource professional to assist us while we hired a suitable replacement for our previous human resource manager. Included in the professional services expenditures are fees we pay to various private sector auditing firms to perform audit work on our behalf. In 2005/06, these fees were $0.446 million. These expenses, however, are "flow through," meaning they are recovered from the organizations we audit and therefore have no net effect on our budget.

Office expenses include such things as professional membership dues, professional development and training, minor furniture purchases, office supplies, courier service, library resources, employment advertisements and office equipment leases. Over 50% of these expenses relate to professional membership dues and professional development and training. In 2005/06, our Office expenses were over budget by $110,000. About 33% of this related to purchases of furniture that had not been planned in our budget. To provide adequate working conditions for our staff and to improve our work environment, minor updating of furniture was long overdue. Other unexpected expenditures related to job advertising, training facilities and increases in course fees, courier fees and office supplies.

Travel expenses were also over our planned budget by $36,000. This was a result of higher than planned training and project-related travel.

Providing adequate information technology, network security and management information is critical to our Office's efficiency, credibility and ability to provide accurate, timely information on our performance. During 2005/06, we conducted a review of our Office information systems, network connectivity and data security needs. Spending of an additional $56,000 on information technology related to upgrading our infrastructure and application software to ensure that adequate support and security are maintained.

Amortization expenses were $57,000 below what we budgeted. In 2003, the rules of capitalization changed. Before this, all furniture and information technology purchases were capitalized. Now, only furniture over $1,000 is capitalized. With respect to information technology purchases, only personal computer hardware and software with a value greater than $1,000 are capitalized and only network hardware and software over $10,000 are capitalized. The effect is that we will continue to see our amortization expense decline, as much of our purchase needs fall below these capitalization thresholds.

Our net asset balance for the year ended March 31, 2006 was $0.30 million. Accruals for recoveries for work we performed in the fiscal year accounted for $1.26 million. Our capital asset account has changed only marginally, and at March 31, 2006 had a balance of $0.25 million. Our liabilities consisted primarily of accounts payable for the one-time payment to staff mentioned above, and balances owing for contracted professional services, private sector auditing firms and staff travel. Our accrued employee leave liability remains significant, but will continue to decline with recent changes in government leave policy.

Actual Results Compared with Those in Prior Years

Our voted appropriation for 2005/06 increased by $600,000 over the previous year.

As mentioned above, recoveries increased as a result of projects not anticipated at the time we compiled our budget. These unanticipated recoveries were from one-off projects not expected to form part of our yearly work plan or to become a recurring source of revenue. Our work plan changes each year, thereby shifting the level of fee-for-service recoveries. In 2005/06, for example, we engaged in new financial statement audit work in connection with consolidated school district financial information. This new work, of course, adds to our recovery base, yet at the same time displaces work in other areas or increases our expenses.

Our unused appropriation increased by $191,000 primarily because of greater recovery-related work and our conservative hiring decisions due to uncertainty around our 2006/07 funding.

Salaries and benefits increased by $430,000 over those in 2004/05, of which $275,000 related to the one-time payment to eligible staff. The remaining increase of about $155,000 related to increasing our capacity from 81 to 83 FTEs and various upward salary adjustments throughout the year.

Professional services increased by $235,000 over those in the prior year mainly as a result of increased services required to augment our financial audit staff and other staff shortages. Many of these expenses are recovered as part of our fee-for-service billing. Part of the variance, approximately $104,000, was for human resource management services and an office-wide job classification review, both of which were additional expenses over last year's. Professional consulting services required for risk audit projects also contributed to our increase in expenditure.

Effective April 1, 2005, our annual rental expense increased by $72,000 as a result of a renewed building lease agreement. The actual variance over the prior year was only $57,000. This reflected the rent increase and minor tenant improvement expenses incurred, offset by a lease management fee of $30,000 that was incurred in 2004/05, but not in 2005/06.

In 2005/06, we spent $57,000 more in office expenses than in the previous year. Although our employment advertising needs were considerably more in 2004/05 than we required this year, we incurred a greater expense in minor office furniture and equipment of about $35,000. Expenses related to training and providing training venues increased by about $28,000 over those for last year. This increase is attributable to a number of recent changes in auditing standards.

Travel expenses increased by $126,000 over last year. Approximately $50,000 of this related to conducting fee-for-service audit engagements that were recovered from the organizations audited. Much of the remaining increase was a result of changes in our year-over-year work plan, the timing or stage of some of our projects, and expenses related to new projects undertaken. Two factors influence our travel costs. First is the steady increase in hotel accommodation and transportation costs. Second is the mix of audit work undertaken. For example, in 2005/06 we undertook risk audits in the health and post-secondary areas, both of which required significant amounts of travel around the province.

Information technology expenses over those in the prior year increased by $100,000. Much of this related to deferring decisions from the previous year with respect to expenditures on operating systems, software and licenses until we could be more certain that new technology had stabilized before we implementing updated technology. Our expenditures in 2005/06 reflect our confidence that the software and hardware we require to enhance our security and improve our efficiency are stable and will contribute to improving our productivity.

Assessment of Trends

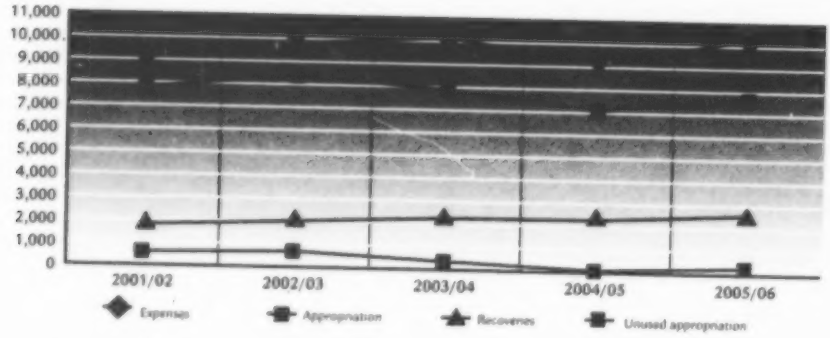
Exhibit 10 illustrates trends in our revenue sources and expenses over the past five years. Actual revenue and expense details for the past five years, along with our 2006/07 budget, are shown in Exhibit 11.

Our voted appropriation as a percentage of total revenue sources has declined by 10% from 2001/02 levels, as our appropriation has fluctuated and recoveries have increased. In 2003/04 and 2004/05 our appropriation was reduced by 5% and 10% respectively. In 2005/06, with an increase of $600,000 in our appropriation, our funding began to approach that which we received in 2001/02, yet still fell short by approximately $700,000 compared with funding levels before government-wide cutbacks. For the 2006/07 fiscal year, we received an increase in our appropriation of $800,000, enabling us to begin to rebuild our capacity to former levels and to manage pressures of rising operating and salary expenses.

Over the years, our recoveries have fluctuated moderately as a result of the mix of work we perform. One of our most significant recovery sources, (approximately

$500,000) has been our audit engagements with the British Columbia Investment Management Corporation. We will not be continuing this audit, and therefore our projected recoveries will decrease. Managing within our current funding levels, in addition to coping with rising expenses, will require prudent financial monitoring and management.

Exhibit 10 **Financial trends, 2001/02 – 2005/06**



In 2005/06 salaries and benefits expense as a percentage of our total expenditures fell by 2.5%. Part of this reduction is a result of shifting spending to fees for professional services required to augment our staff levels. Contract fees for professional services are also rising. In addition to these pressures, staff received an across-the-board salary increase of 2.5% effective April 2, 2006. Over the next three years, expected increases of 2.5% per year will increase our salary expenses. As well, we are uncertain of the impact that government's new management compensation framework will have on our salary expense in future years.

Increases in all other expenses, excluding amortization, as a result of inflation and economic activity, also impact our ability to increase staffing levels. For example, transportation and hotel costs are expected to continue to increase. Since these costs are significant and somewhat volatile, we will continue to monitor them closely. Information technology costs, showing steady year-over-year increases, will likely continue to rise in pace with the rate of change of technology and heightened security requirements. Some relief is anticipated in lower amortization expense which is continually declining, as fewer purchases of furniture, network hardware and software, and tenant improvements fall within the capitalization criteria.

Despite our efforts to improve efficiencies and reduce our operating costs, these cost pressures could potentially impact our staffing levels and our ability to carry out our work as planned.

Our Financial Performance

Exhibit 11 Year-over-year financial trends *($ thousands)*

	Budget	Actuals for fiscal year ended March 31					Line items (as a Percent)				
	2007	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
	$	$	$	$	$	$	%	%	%	%	%
Sources of revenue							As a % of revenues				
Voted appropriation	8,565	7,670	7,069	7,901	8,364	7,817	74.8	76.2	77.8	85.0	84.7
Recoveries	1,940	2,588	2,293	2,263	2,008	1,788	25.2	24.7	22.3	20.4	19.3
Unused appropriation	–	(273)	(82)	(365)	(691)	(586)	(2.7)	(0.9)	(3.6)	(7.0)	(6.3)
Other amounts	–	275	–	352	161	212	2.7	–	3.5	1.6	2.3
Total revenue	10,505	10,260	9,280	10,151	9,842	9,231	100.0	100.0	100.0	100.0	100.0
Expenses							As a % of expenses				
Salaries and benefits	7,495	7,235	6,805	7,599	7,217	6,753	70.5	73.3	74.9	73.3	73.2
Professional services	1,165	1,137	902	1,007	931	903	11.1	9.7	9.9	9.5	9.8
Rent	550	515	457	443	435	438	5.0	4.9	4.4	4.4	4.7
Office expenses	342	433	376	342	347	408	4.2	4.1	3.4	3.5	4.4
Travel	320	352	227	232	340	298	3.4	2.4	2.3	3.5	3.2
Information technology	275	320	220	219	245	131	3.1	2.4	2.1	2.5	1.4
Amortization	160	123	148	187	201	197	1.3	1.6	1.8	2.0	2.1
Public reports	135	82	82	59	65	42	0.8	0.9	0.6	0.7	0.5
Grants	63	63	63	63	61	61	0.6	0.7	0.6	0.6	0.7
Total expenses	10,505	10,260	9,280	10,151	9,842	9,231	100.0	100.0	100.0	100.0	100.0
Average FTE usage	89.0	83.2	81.4	88.0	88.0	88.0					

Office of the Auditor General of British Columbia
Statement of Management Responsibility

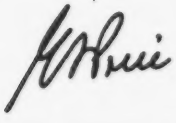
We are responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

We have prepared the financial statements in accordance with Canadian generally accepted accounting principles.

We have developed and maintain systems of internal control that give reasonable assurance that our Office has:

- operated within its authorized limits;
- safeguarded assets; and
- kept complete and accurate financial records.

The Select Standing Committee on Finance and Government Services of the Legislative Assembly appointed Grant Thornton LLP, Chartered Accountants, to audit the accounts of our Office for the year ended March 31, 2006. Our auditors report the results of their audit to the Speaker of the Legislative Assembly. In their report, the auditors outline the scope of their audit and give their opinion on our financial statements.



Errol Price,
Deputy Auditor General
and Executive Financial Officer

Christine Davison
Senior Financial Officer

Grant Thornton

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Speaker
The Legislative Assembly, Province of British Columbia

We have audited the statement of financial position of the Office of the Auditor General of British Columbia as at March 31, 2006 and the statements of operations, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2006 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for March 31, 2005 were reported on by another firm of Chartered Accountants. The budget information presented in the statements of operations and changes in net assets is unaudited and should not be considered as part of the financial statements on which we have expressed our opinion.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants

Victoria, Canada
May 11, 2006

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Office of the Auditor General of British Columbia
Statement of Financial Position
As at March 31, 2006

	2006	2005
Financial Assets		
Advances recoverable	$31,561	$14,978
Accounts receivable	9,610	1,197
Accrued recoveries	1,259,638	1,077,639
Due from government (Notes 4, 6)	93,273	30,531
	$1,394,082	$1,124,345
Non-Financial Assets		
Prepaid expenses	51,177	51,886
Capital assets (Note 5)	245,906	250,006
	$1,691,165	$1,426,237
Liabilities		
Accounts payable (Note 6)	$795,021	$344,903
Accrued leave (Note 7)	597,561	647,020
Accrued workforce adjustment (Note 8)	—	132,422
Deferred recovery (Note 9)	1,500	—
	$1,394,082	$1,124,345
Net Assets	297,083	301,892
	$1,691,165	$1,426,237

The accompanying notes are part of the financial statements.

Approved by:

Errol Price,
Deputy Auditor General and
Executive Financial Officer

Christine Davison,
Senior Financial Officer

Our Financial Statements

Office of the Auditor General of British Columbia
Statement of Operations
For the year ended March 31, 2006

	2006		2005
	Planned	Actual	Actual
Revenues			
Voted appropriation (Note 10)	$7,670,000	$7,670,000	$7,069,000
Recoveries (Note 10)	2,300,000	2,587,993	2,292,770
Unused appropriation (Note 10)	–	(273,150)	(81,625)
Other amounts (Note 6)	–	274,664	–
	$9,970,000	$10,259,507	$9,280,145
Expenses			
Salaries (Note 6)	$5,815,000	$5,879,361	$5,498,203
Employee benefits (Note 11)	1,395,000	1,355,972	1,306,897
Salaries and benefits	7,210,000	7,235,333	6,805,100
Professional services	1,020,000	1,137,443	901,855
Rent	510,000	514,455	457,450
Office expenses	322,000	432,522	375,753
Travel	316,000	352,273	226,501
Information technology	264,000	320,000	219,693
Amortization	180,000	122,713	148,526
Public reports	85,000	81,768	82,267
Grants	63,000	63,000	63,000
	$9,970,000	$10,259,507	$9,280,145

The accompanying notes are part of the financial statements.

Office of the Auditor General of British Columbia
Statement of Changes in Net Assets
For the year ended March 31, 2006

	2006		2005
	Planned	Actual	Actual
Net Assets — beginning of year		$301,892	$282,063
Appropriations for purchase of capital assets (Note 5)	$200,000	118,613	156,472
Amortization	(180,000)	(122,713)	(148,526)
(Decrease) increase in prepaid expenses		(709)	11,883
(Decrease) increase in Net Assets		(4,809)	19,829
Net Assets – end of year		$297,083	$301,892

The accompanying notes are part of the financial statements.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2006

1. Nature of Operations

The Auditor General is an Officer of the Legislature of British Columbia, appointed for a six-year term by the Legislative Assembly. Non-partisan, objective and independent of the government of the day, he reports impartial assessments of government accountability and performance to the Assembly.

The Auditor General's mandate is established by the Auditor General Act. The Act requires the Auditor General to audit the government's annual Summary Financial Statements, and allows the Auditor General to be appointed as the financial statement auditor of any government organization or trust fund. The Act also allows the Auditor General to carry out examinations focusing, among other things, on whether government or a government organization is operating economically, efficiently and effectively; and whether the accountability information provided to the Legislative Assembly by the government or a government organization with respect to the results of its programs is adequate.

Funding for the operation of the Office of the Auditor General (the Office) comes from a voted appropriation (Vote 2) of the Legislative Assembly. The vote provides separately for operating expenses and capital acquisitions. The appropriation is net of the recoveries our Office expects to receive through fee-for-service engagements with provincial public sector organizations. Any unused appropriation cannot be carried forward for use in subsequent years.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a) Revenue
The voted appropriation for each fiscal year is recognized and reported as revenue. Recoveries are recognized as revenue in the period in which the related work was performed. Any revenue not used to fund operations during the year is reported as unused appropriation and shown as a deduction from revenue.

b) Expense
Expenses are recognized when goods or services are acquired or a liability is incurred.

c) Net assets
Net assets includes the net book value of capital assets plus prepaid expenses. These represent the unamortized cost of assets that will be used to provide services in future periods.

d) Statement of cash flows
A Statement of Cash Flows has not been prepared, as it would provide no additional useful information.

e) Capital Assets
Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of assets as follows:

Computer hardware and software	3 years
Mainframe hardware and software	5 years
Furniture and equipment	5 years
Tenant improvements	5 years

3. Measurement Uncertainty

The calculation of accrued recoveries for services requires the use of estimates. When work has been performed, but not invoiced by year end, we estimate the percentage completion in terms of costs incurred in the current fiscal year, to the amount that will likely be invoiced in the following fiscal year. This amount is then accrued as a recovery in the current year. Actual results could differ from these estimates.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2006

4. Due from Government

Since all cash transactions of the Office are included in the Consolidated Revenue Fund of the government, we do not maintain or report any cash balances. The government maintains clearing accounts which are debited or credited as we make payments or deposits. The amount shown as due from government is the cumulative balance of all such transactions.

5. Capital Assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 260,653	$ (113,128)	$ 147,525	$ 160,502
Mainframe hardware and software	43,292	(15,586)	27,706	23,539
Furniture and equipment	111,476	(40,801)	70,675	65,965
Tenant improvements	778,563	(778,563)	-	-
	$ 1,193,984	$ (948,078)	$ 245,906	$ 250,006

6. One-Time Payment

On March 31, 2006 the government announced a one-time payment to all eligible BC public sector employees. The total amount for the employees of our Office was $274,664. To present a complete picture of the finances of the Office, this amount has been included in salaries and in revenue under the heading "other amounts". As the payment had been announced, but not made at March 31, 2006, the amount has also been included in accounts payable and due from government.

7. Accrued Leave

Accumulated liability with respect to vacation and other leave entitlements due to our employees is $597,561 as at March 31, 2006 (2005: $647,020).

8. Accrued Workforce Adjustment

No new early retirement agreements were entered into in 2006. As at March 31, 2006, the remaining liability with respect to the 2004 agreements is zero (2005: $132,422).

9. Deferred Recovery

Prior to year end, the Office received payment from a government organization for work that we will be performing during the year ending March 31, 2007.

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2006

10. Voted Appropriation and Unused Appropriation

The Office receives approval to spend funds through separate operating and capital appropriations. The unused appropriations cannot be used by the Office in subsequent fiscal years.

	2006			2005
	Operating	Capital	Total	Total
Appropriation (Vote 2)	$7,670,000	$ 200,000	$ 7,870,000	$ 7,269,000
Recoveries	2,587,993		2,587,993	2,292,770
Other amounts	274,664	–	274,664	–
Total funds available	10,532,657	200,000	10,732,657	9,561,770
Operating expenses	(10,259,507)		(10,259,507)	(9,280,145)
Capital acquisitions	–	(118,613)	(118,613)	(156,472)
Unused appropriation	$ 273,150	$ 81,387	$ 354,537	$ 125,153

11. Employee Benefits

Although Office employees are excluded from union membership, we participate in the government's payroll and benefits programs and contribute through the government's payroll system for specific termination benefits as provided for under the government's collective agreements and conditions of employment. Government charges the Office for these and other employee benefits on a cost recovery basis, expressed as a percentage of salaries. The effective rate for the year ended March 31, 2006 was 24.52% (24.10% for the year ended March 31, 2005). The charge includes amounts for employee benefits programs, pension plan contributions, employer portions of statutory remittances, payroll systems charges, and centrally funded vacation and retirement liabilities.

The Office and its employees also contribute to the Public Service Pension Plan. The Public Service Pension Plan is a multi-employer, defined benefit plan and is available to most of the Office's employees. The British Columbia Pension Corporation administers the Plan and payments to pensioners on behalf of the Office. The Public Service Pension Plan's management is based on a joint trusteeship whereby the risks and benefits are shared between the employees and employers.

Every three years an actuarial valuation is performed to assess the financial position of the pension plan and the adequacy of funding. The latest actuarial valuation report available was as at March 31, 2005, and indicated an unfunded liability of $767 million. As a result, the actuary has determined that an increase in contribution rates of 1.88% each, for plan members and employers, is necessary in order for the Plan to maintain its long-term financial soundness and thus its ability to meet the pension promise made to plan members. The trustees have decided that this increase in rates will be introduced effective April 1, 2006.

12. Commitments

The Office leases two photocopiers under separate agreements which expire in September 2007 and August 2008. Future minimum payments under the terms of the leases as of March 31, 2006 are as follows:

Fiscal Year	Commitment
2006/07	$ 8,976
2007/08	6,744
2008/09	1,880
Total	$ 17,600

The Office has an accommodation agreement with the Ministry of Labour and Citizen's Services for occupancy of the space at 8 Bastion Square. The agreement requires that six months notice be given should we wish to vacate. The rental payment commitment for six months is $255,744.

APPENDICES

Appendix A:

Summary of our Reports completed in 2005/2006

Appendix A: Summary of our reports completed in 2005/2006

Each of these reports can be accessed through our website or requested in print form from our Office.

Report 1 - May 2005
Follow-up of the recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: Earthquake Preparedness; Performance Audit

Report 2 - May 2005
Joint Follow-up of 2001/2002: Report 1 Managing Interface Fire Risks and Firestorm 2003 Provincial Review

Report 3 - June 2005
Audit of the Government's Corporate Accounting System: Part 1

Report 4 - July 2005
Building Better Reports: Our Assessment of the 2003/04 Annual Service Plan Reports of Government

Report 5 - July 2005
Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos

Financial Statement Audit Coverage Plan for Fiscal Years 2006/2007 through 2008/2009 (November 2005)

Strategic Direction and Funding Proposal for the fiscal year 2006/2007 (November 2005)

Report 6 - November 2005
Monitoring Government Finances

Service Plan 2006/2007 - 2008/2009

Report 7 - February 2006
Follow-up of 2003/2004 Report 4: Alternative Payments to Physicians: A Program in Need of Change

Appendix A

Report 8 – March 2006
Managing Pharmacare: Slow Progress Toward Cost-Effective Drug Use and a Sustainable Program

Report 9 – March 2006
Leading the Way: Adopting Best Practices in Financial Reporting 2004/2005

Report 10 – March 2006
Building Better Reports: Our Assessment of the 2004/05 Annual Service Plan Reports of Government